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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**GENERAL BUDGET REQUIREMENTS – continued:**

**2. Compliance Requirement: Budgeted Funds**

- A budget must be adopted for the following funds: (Section 20-9-201, MCA)
  - a. general fund,
  - b. transportation fund,
  - c. bus depreciation reserve fund,
  - d. tuition fund,
  - e. retirement fund,
  - f. debt service fund,
  - g. building reserve fund,
  - h. adult education fund,
  - i. nonoperating fund (applicable to only nonoperating districts, see 20-9-505), and
  - j. any other funds designated by the legislature:
    1. Technology acquisition and depreciation fund (Section 20-9-533, MCA)
    2. School flexibility fund (Section 20-9-543, MCA)

**Suggested Audit Procedure:**

**NONE**

OPI monitors each school district's budget, including those funds for which a budget must be adopted.

**3. Compliance Requirement: Tax Limitation Provisions**

- Section 15-10-420, MCA, pertaining to the procedures for calculating mill levies does not apply to school district levies. (Section 15-10-420(5), MCA)

**Suggested Audit Procedure:**

**NONE**

**4. Compliance Requirement: Expenditure Limitations**

- Expenditures must be limited to the total amount that is appropriated in each fund's final budget. (Sections 20-9-133(2)) **Exception** - If a district incurs a legal bonded debt payment after the final debt service fund budget for the current fiscal year has been adopted, and if the payment is required for the current fiscal year, payment in the current fiscal year is allowed if money is available. (Section 20-9-133(3), MCA)
- The expenditure limitation, at any time during the school fiscal year, for a non-budgeted fund is the amount of cash balance of the non-budgeted fund. (Section 20-9-210, MCA))

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL BUDGET REQUIREMENTS – continued:**

### **4. Compliance Requirement:**

- Transactions recorded to correct expenditures reported in a prior year shall be charged against the current year's budget as provided in 20-9-209(2), MCA. (ARM 10.10.307))

### **Suggested Audit Procedure:**

- Compare year-end actual expenditures for each budgeted fund to the budget appropriations for the fund and determine that expenditures did not exceed the approved budget appropriations.  
(Note: Elementary district budget to actual expenditures and high school district budget to actual expenditures for each budgeted fund should be reviewed separately, except for K-12 districts, which adopt a single K-12 budget for each budgeted fund.)

### **5. Compliance Requirements:**

### **Budget Amendments**

- A budget may be amended for the following reasons: (Section 20-9-161, MCA)
  - a. An increase in enrollment of an elementary or high school district that is beyond what could have been reasonably anticipated at the time of the adoption of the budget. Because of the enrollment increase, the district's budget for any or all of the regularly budgeted funds does not provide sufficient financing to properly maintain and support the district for the entire current school fiscal year.
  - b. The destruction or impairment of any school property necessary to the maintenance of the school by fire, flood, storm, riot, insurrection, or act of God, to an extent rendering school property unfit for its present school use.
  - c. A judgment for damages against the district issued by a court after the adoption of the budget for the current year.
  - d. An enactment of legislation after the adoption of the budget that imposes an additional financial obligation on the district.
  - e. The receipt of:
    1. a settlement of taxes protested in a prior fiscal year,
    2. taxes from a prior school fiscal year as a result of a tax audit by the Department of Revenue or its agents,
    3. delinquent taxes from a prior school year, and
    4. a determination by the trustees that it is necessary to expend all or a portion of the taxes received under e.1, 2, or 3, for projects that were deferred from a previous budget of the district.
  - f. Any other unforeseen need of the district that cannot be postponed until the next school year without affecting the safety of the students and district employees or the educational functions of the district.

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**GENERAL BUDGET REQUIREMENTS – continued:**

**5. Compliance Requirements – continued:**

- When a budget amendment is required as a result of an increase in enrollment (1 above), the trustees shall submit a petition to the Superintendent of Public Instruction. It must be signed by a majority of the trustees. If the petition is approved, the trustees may adopt a resolution for the budget amendment. (Note: The trustees may qualify for an increased state payment for direct state aid if the budget amendment is adopted.) The district may not adopt an amendment if it will cause the district to exceed the maximum general fund budget, as adjusted by OPI. An amendment as a result of an increase in enrollment may not be adopted until after October 1. (Sections 20-9-162, 20-9-163, and 20-9-166, MCA)
- When a budget amendment is required as a result of (a) through (f) above, it may be approved by the trustees through a resolution. The trustees must proclaim the need for the amendment by a majority vote, and a copy of the proclamation must be sent to the county superintendent and the board of county commissioners. (Section 20-9-162(1) and (2), MCA)
- A copy of the budget amendment resolution must be published in a newspaper as required by Section 20-9-164, MCA. Copies of the budget resolution must also be posted at each schoolhouse of the district, and delivered to the county superintendent and county clerk and recorder. (Section 20-9-164, MCA)
- The meeting of the trustees to consider and adopt the budget amendment must be open to the public. (Section 20-9-165(1), MCA)

**Suggested Audit Procedures:**

- If budget amendments occurred during the year, obtain copies of the board's proclamation of need for the budget amendment or copies of the petition for the budget amendment to determine if the budget amendment was for an allowable reason and if proper procedures were followed before the amendment was approved. Review any correspondence relating to approval for these amendments from the county superintendent or Superintendent of Public Instruction.
- Review a copy of the budget amendment resolution that was passed by the trustees. Ensure that it was published, posted, and delivered, as required above.
- Review a copy of the publication of the meeting to adopt a budget amendment, to ensure that the meeting was open to the public.

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL BUDGET REQUIREMENTS – continued:**

### **6. Compliance Requirements: General Fund Operating Reserves**

- At the end of each fiscal year, the trustees must designate a portion of the general fund end-of-the-year fund balance that is to be earmarked as an operating reserve for the purpose of paying general fund warrants issued by the district from July 1 to November 30 of the ensuing fiscal year.
  1. The amount that is to be earmarked as an operating reserve may not exceed 10% of the final general fund budget for the ensuing fiscal year or \$10,000, whichever is greater. The amount held as an operating reserve may not be used for property tax reduction. (Section 20-9-104(1), (2), and (6), MCA)
  2. The 10% limitation will not apply when the amount in excess of the limitation is equal to or less than the unused balance of any amount received: (Section 20-9-104(5), MCA)
    - (a) in settlement of tax payments protested in a prior school fiscal year;
    - (b) in taxes from a prior fiscal year as a result of a tax audit by the Department of Revenue or its agents; and
    - (c) in delinquent taxes from a prior school fiscal year.
- The excess reserves in 2. above may be appropriated to reduce the BASE budget levy, the over-BASE budget levy, or the additional levy for the general fund that is provided for in Section 20-9-353, MCA. (Section 20-9-104(3), MCA)  
**(Note: Refer to the portion of this compliance supplement under General Fund Budget which addresses the BASE Funding Program for Schools for further information concerning the BASE.)**

#### **Suggested Audit Procedure:**

(OPI checks the legal operating reserve percentage for the general fund of each school district.)

- Obtain a copy of the school district's most recent Trustees' Financial Summary (TFS). Review documentation relating to the additions to the general fund excess reserves which are found under revenue codes 1117, 1118, and 1190. Verify that all additions represent valid current year receipts of prior year protested/delinquent taxes or tax audits. **(Note: Penalties and interest charged to the taxpayers are valid additions. Interest earned on the holding of excess reserves is not a valid addition to excess reserves.)**

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL BUDGET REQUIREMENTS – continued:**

### **7. Compliance Requirement: Fund Balance Reappropriated**

- Any portion of the end-of-the-year general fund balance that is not reserved (10% limitation) or reappropriated to reduce the BASE budget levy, or the over-BASE budget levy provided for in Section 20-9-353, MCA, is considered to be fund balance reappropriated and must be used for property tax reduction as provided in Section 20-9-141(1)(b), MCA. (Section 20-9-104(4), MCA)

#### **Suggested Audit Procedure:**

- Review prior period revenue adjustments to ensure that all such adjustments are valid and are not a result of the school district's attempt to "save" fund balance from reappropriation. Inspect documentation for these adjustments for indications of prior year encumbrances, accrued expenditures, or year-end warrants that the school district may have recorded at the end of the previous year, with the intention of canceling in the current fiscal year.

### **8. Compliance Requirements: Budget Transfers**

- Whenever the appropriated amount of an item of a budgeted fund is in excess of the amount actually required during the school year for that item, the trustees may transfer any of the excess appropriation amount to any other appropriation item of the same budgeted fund. (Section 20-9-208(1), MCA)
- Unless specifically restricted by statute (see below), transfers may be made from one budgeted fund to another budgeted fund of the same district whenever the trustees determine, in their discretion, that the transfer of funds is necessary to improve the efficiency of spending within the district or when an action of the trustees results in savings in one budgeted fund that can be put to more efficient use in another budgeted fund. (Section 20-9-208(2), MCA)  
(Note: Cash must follow a budget transfer to another fund. See Compliance Requirements No. 10 "Cash Transfers" for additional information.)
  - Transfers may not be made with funds approved by the voters or with funds raised by a nonvoted levy unless the transfer is within or directly related to the purposes for which the funds were raised.
  - Unless otherwise authorized by a specific statute, transfers from the general fund to any other fund and transfers to the general fund from any other fund are prohibited. (Note: See Compliance Requirements No. 10 "Cash Transfers" and No 11 "Fund Closures", below, for allowable transfers to and from the general fund.)
  - Before a transfer can occur, the trustees shall hold a properly noticed hearing to accept public comment on the transfer.  
(Section 20-9-208(2), MCA)

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL BUDGET REQUIREMENTS – continued:**

### **8. Compliance Requirements – continued:**

- Authorized transfers shall be entered upon the permanent records of the district. (Section 20-9-208(3))
- Within 30 days of approving a transfer, the trustees shall notify the state superintendent, county superintendent, and county treasurer in writing of the amount of budget authority transferred, the purposes for which the amount transferred will be used, and the funds affected. (ARM 10.10.320(11))
- When the trustees transfer cash from one budgeted fund to another budgeted fund (see Compliance Requirement No. 10, below), the trustees may also transfer budget authority up to the amount of the cash transfer. (ARM 10.10.320(10))

### **Suggested Audit Procedures:**

- If budget transfers were made between funds, determine that a public hearing was first held on the proposed transfer.
- Verify that no budget transfers were made to or from the general fund, unless the transfer was specifically authorized by statute or administrative rule.
- If a transfer was made with funds approved by the voters or with funds raised by a nonvoted levy, review to verify that the transfer was within or directly related to the purposes for which the funds were raised.
- Obtain and review evidence that, within 30 days of approving a transfer, the trustees notified the state superintendent, county superintendent, and county treasurer in writing of the amount of budget authority transferred, the purposes for the transfer, and the funds affected.

### **9. Compliance Requirement:**

### **Encumbrances**

- All appropriations lapse on the last day of the school fiscal year (June 30). However, a school district may encumber the current year budget for the following:
  - a. the cost of uncompleted improvements in progress of construction – a legally binding contract must be signed and effective prior to June 30, or a valid purchase order must be issued by June 30. (**Note: The amount encumbered may include the entire contract price for the project.**)
  - b. the costs of personal property, (including materials, supplies and equipment, but excluding contracts for services) ordered but not received – a valid purchase order must be issued by June 30.
 (Section 20-9-209, MCA; ARM 10.10.101)



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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL BUDGET REQUIREMENTS – continued:**

### **9.     Suggested Audit Procedure:**

- Obtain a copy of the school district's list of encumbrances. Verify that all, or selected, encumbrances meet the above criteria, and verify that the school district has purchase orders or contracts dated no later than June 30, to support each encumbrance.

## **CASH TRANSFERS AND FUND CLOSURES**

### **10.   Compliance Requirements:**

### **Cash Transfers**

- Cash may be transferred between funds only if the transfer is specifically allowed by law or administrative rule. (ARM 10.10.320(1))
- Transfers may be made from one nonbudgeted fund to another nonbudgeted fund whenever the trustees determine that the transfer of funds is necessary to improve the efficiency of spending within the district. (Section 20-9-208(2)(b), MCA) Any portion of the cash balance in a nonbudgeted fund may be transferred. The trustees must prepare a resolution stating specifically how the transfer will be used to improve efficiency of spending within the district. (ARM 10.10.320(8))
- Trustees are required to hold a properly noticed hearing to accept public comment on a transfer before the transfer can occur, with the exception of the following transfers: (Section 20-9-208(2)(b), MCA; ARM 10.10.320(2))
  - a. Transfers from the general fund to the compensated absences fund to establish and maintain the compensated absences fund, or transfers of excess balance in the compensated absences fund to the general fund (See also Section 20-9-512, MCA);
  - b. Transfers of unused employer contributions for self-insurance group coverage allowed by Section 2-18-703, MCA;
  - c. Transfers from the general fund to the litigation reserve fund and, upon settlement of the litigation, a transfer returning the balance to the general fund under Section 20-9-515, MCA;
  - d. Transfers between the federal impact aid fund and the debt service fund under Sections 20-9-437 & 443, MCA;
  - e. Transfers from any fund, except the miscellaneous programs fund, to support an interlocal agreement fund under Section 20-9-703, MCA;
  - f. Closure of district funds to establish a non-operating fund under Section 20-9-505, MCA; and
  - g. Transfers of any portion of the balance of a bus depreciation fund approved by the voters. (See following bulleted item)

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**GENERAL BUDGET REQUIREMENTS – continued:**

**CASH TRANSFERS AND FUND CLOSURES – continued:**

**10. Compliance Requirements- continued:**

- In addition to the cash transfers provided for in State law, above, the following cash transfers between district funds are allowable (ARM 10.10.320): **(See also Compliance Requirement No. 11 “Fund Closures” for additional allowable cash transfers)**
  - a. Pursuant to Section 20-10-147, MCA, when all the buses of a school district have been sold or otherwise disposed of, trustees may transfer any portion of the bus depreciation reserve fund balance to any other fund of the district contingent on voter approval. (ARM 10.10.320(4) See also AGO No. 6, Vol. 51)
  - b. Except for the general fund, retirement fund, debt service fund, and bus depreciation fund, trustees may transfer any portion of the cash balance in a budgeted fund to another budgeted fund for any purpose allowed by law, provided the money being transferred is comprised of revenue from sources other than tax receipts. Trustees may transfer tax revenues from one budgeted fund to another budgeted fund, provided the money is subsequently expended for purposes the same as, or directly related to, the purposes for which the taxes were levied. When tax receipts are transferred, the trustees' resolution shall state the purpose for which the taxes were levied and the purposes for which the funds will be used. (ARM 10.10.320(6))
- The trustees shall **not**:
  - a. Transfer cash from the district retirement fund, which is funded by a countywide levy, to any other fund (ARM 10.10.320(3));
  - b. Transfer any portion of the balance in the debt service fund to another fund, except to close the fund after fully paying all obligations as provided in Section 20-9-443, MCA (ARM 10.10.320(5));
  - c. Transfer cash received through state and federal grants and contracts, unless the transfer is in compliance with any restrictions or conditions imposed by state or federal law; (ARM 10.10.320(7); Section 20-9-208(2)(b), MCA)
  - d. Transfer money between a budgeted fund and a nonbudgeted fund, except when specifically provided by law. (ARM 10.10.320(9))
  - e. Transfer cash from one school district to another school district. Cash of an elementary district fund may only be transferred into another elementary district fund, and cash of a high school district fund may only be transferred into another high school district fund. (Section 20-9-208, MCA; ARM 10.10.319)
- Authorized transfers shall be entered upon the permanent records of the district. (Section 20-9-208(3))

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL BUDGET REQUIREMENTS – continued:**

### **CASH TRANSFERS AND FUND CLOSURES - continued**

#### **10. Compliance Requirements- continued:**

- Within 30 days of approving the transfer, the trustees shall notify the state superintendent, county superintendent, and county treasurer in writing of the amount of cash transferred, the purposes for which the amount transferred will be used, and the funds affected. (ARM 10.10.320(11))
- When cash is transferred from one budgeted fund to another budgeted fund, the trustees may also transfer budget authority up to the amount of the cash transfer. (ARM 10.10.320(10))

#### **Suggested Audit Procedures:**

- If cash transfers were made between funds, determine that a public hearing was first held on the proposed transfer, unless the transfer is exempted from the public hearing requirement as discussed above.
- Review cash transfers between funds to determine whether the transfers were specifically allowed by law or administrative rule, and verify that no cash transfers were made that were specifically prohibited by state law or administrative rule, as discussed above.
- If cash was transferred from a nonbudgeted fund, verify that the trustees prepared a resolution stating specifically how the transfer will be used to improve efficiency of spending within the district.
- Obtain and review evidence that, within 30 days of approving a transfer, the trustees notified the state superintendent, county superintendent, and county treasurer in writing of the amount of cash transferred, the purposes for the transfer, and the funds affected.

#### **11. Compliance Requirements:**

#### **Fund Closures**

- Except as otherwise provided by law (see following provisions), whenever the trustees of a district determine that a fund is inactive and will no longer be used, the fund shall be closed by transferring all cash and other account balances to any fund considered appropriate by the trustees, if the fund does not have a cash or fund balance deficit. (Section 20-9-201(3), MCA) If an inactive fund has a cash or fund balance deficit, the district must resolve the deficit before closing the fund. (ARM 10.10.319)

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL BUDGET REQUIREMENTS – continued:**

### **CASH TRANSFERS AND FUND CLOSURES - continued**

#### **11. Compliance Requirements - continued:**

- The following provisions for the closure of specific funds are found in ARM 10.10.319 and various sections of the Montana Code Annotated, as indicated:
  - a. Pursuant to 20-9-201, MCA when trustees determine that a tuition fund is inactive and will no longer be used, they must close the fund into the miscellaneous programs fund. (Section 20-9-201(3), MCA)
  - b. Pursuant to 20-9-443, when all bond principal, interest, and fees and all SIDs outstanding have been fully paid, the trustees shall close the debt service fund into the building reserve fund, general fund, or technology fund. The district must identify money transferred from the debt service fund using a project reporter code number and track the subsequent uses of the money that are limited by Section 20-9-443.
  - c. Pursuant to 20-10-147, MCA, when all the buses of a district have been sold or otherwise disposed of, trustees may close a bus depreciation reserve fund to any other fund of the district contingent on voter approval.
  - d. Pursuant to 20-9-505, MCA, a district entering non-operating status shall close all funds, except the debt service fund and the miscellaneous programs fund, into a single non-operating fund of the district.
- Trustees may not close a fund into a fund of another school district. An elementary fund must be closed into another elementary fund, and a high school fund must be closed into another high school fund. (ARM 10.10.319) **(Note: A transfer from the elementary general fund to the high school general fund and visa versa would also be prohibited under Section 20-9-208, MCA)**
- The trustees must notify the county treasurer in writing of any fund closure, stating the district fund into which the inactive fund is to be closed. The county treasurer must deposit subsequent receipts on behalf of the closed fund, including subsequent tax receipts, in the fund to which the inactive fund was closed. (ARM 10.10.319)

#### **Suggested Audit Procedures:**

- If a fund is determined to be inactive and closed during the audit period, verify that the cash and other account balances were transferred to the appropriate funds, as provided in law or administrative rule. (If there is no specific provision for the closure of the fund, the transfer may be made to any fund considered appropriate by the trustees.)
- Verify that no funds were closed into a fund of another school district.

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## **I.       COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **GENERAL BUDGET REQUIREMENTS – continued:**

#### **CASH TRANSFERS AND FUND CLOSURES - continued**

##### **11.   Suggested Audit Procedures – continued:**

- If an inactive fund had a cash or fund balance deficit, verify that the deficit was resolved prior to closing of the fund.
- Obtain and review evidence that the county treasurer was notified, in writing, of the fund closure. Verify that all subsequent receipts on behalf of the closed fund were deposited into the fund to which the inactive fund was closed.

## **ENROLLMENT**

### **Enrollment Overview:**

The “Average Number Belonging” (ANB) means the average number of regularly enrolled full-time pupils physically attending or receiving educational services at an offsite instructional setting from the public school of a district who were enrolled as of the first Monday in October and on February 1st of the prior school fiscal year, or the next pupil-instruction day if that date does not fall on a pupil instruction day. ANB is the key figure in calculating the financial support that a school district will receive under the school BASE Funding Program. An error in the calculation of this figure could have a substantial effect on the revenue derived through the program.

ANB for each district is obtained from the enrollment count reported to OPI on the Annual Data Collection Form (aka “Fall Report”) as of the 1st Monday in October, and the February 1st enrollment count reported to OPI on the Spring Enrollment Report. Pre-kindergarten students and students who are 19 on or before September 10 are excluded from the ANB calculation and kindergarten students are included as one-half for ANB purposes. Students that have been absent for more than 10 consecutive school days may not be included in the enrollment count for ANB purposes, unless the pupil resumes attendance prior to the day of the enrollment count. There is an exception, in that homebound students and students who are confined to a treatment, medical, or custodial facility may be counted as enrolled after the 10th consecutive date if the provisions of ARM 10.20.102(8) are met.

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## **I.       COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **ENROLLMENT – continued:**

#### **Enrollment Overview – continued:**

**(Note: Any difference in enrollment reported to OPI or shown on the enrollment records of the district is considered *MATERIAL* to OPI. OPI recalculates ANB using corrected enrollment counts reported in school district audit reports. Based on this information OPI adjusts guaranteed tax base entitlements (GTB), the state per-student funding, the basic entitlement, and sometimes the general fund budget limits. It is important to know that OPI not only lowers funding when ANB drops due to an audit, but they also PAY ADDITIONAL direct state aid for additional ANB reported in an audit.)**

In most elementary districts, the individual teachers' attendance records used within the various elementary schools are summarized by the school building offices. The attendance records at some high school districts, however, may not be sufficient to support the enrollment calculations. The primary difficulty is the fact that students change teachers and classrooms several times a day, each requiring a separate attendance record. This could also be a problem in some junior high schools and middle schools. Most high schools retain individual student attendance records, however, they are often filed in individual student folders at the close of the school year.

Despite the type of attendance records used, districts must maintain sufficient documentation to support their enrollment reports that are submitted to OPI. These may take the form of summary attendance records, by day, week, month, quarter, etc. at the various schools, or they may maintain separate student records in some manner that supports their enrollment figures on the count dates. Some form of enrollment documentation must be available at each district in a way that will permit verification of the enrollment reports.

**(Note: OPI would prefer that audit reports and financial review reports of Montana school districts disclose all differences between enrollment reported to OPI and that documented by the school district's records. These should include discrepancies in part-time students, early graduates, and discrepancies in attendance and absences reported to OPI.)**

#### **1.    Compliance Requirements:                      Minimum Pupil Instruction Days & Hours**

- **Prior to July 1, 2005:** School districts must provide at least 180 school days of pupil instruction and the minimum aggregate hours specified in the following compliance requirement each school year, except as follows:
  - a. 175 days and 1,050 aggregate hours of pupil instruction for graduating seniors may be sufficient as provided in Section 20-9-313, MCA;
  - b. 90 days and 360 aggregate hours of pupil instruction must be conducted for a kindergarten program.
 (Section 20-1-301(1), MCA)

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **ENROLLMENT - continued**

### **1.     Compliance Requirements - continued:**

- **Prior to July 1, 2005:** The minimum aggregate hours required by grade are:
  - a. 720 hours for grades 1 through 3; and
  - b. 1,080 hours for grades 4 through 12.
 (Section 20-1-301(2), MCA)
- **Effective July 1, 2005:** School districts must provide at least the minimum aggregate hours as defined below:
  - a. 360 aggregate hours for a kindergarten program (20-7-117, MCA);
  - b. 720 hours for grades 1 through 3; and
  - c. 1,080 hours for grades 4 through 12.
 (Note: 1,050 aggregate hours of pupil instruction for graduating seniors may be sufficient)

(Section 20-1-301, MCA)

### **Suggested Audit Procedure:**

- Determine that the limitations described above were not exceeded.

### **2.     Compliance Requirements:                      Pupil Instruction Days less than Minimum**

- **Prior to July 1, 2005:** For any elementary or high school district that fails to provide for at least 180 school days of pupil instruction and the minimum aggregate hours, as defined above, the Superintendent of Public Instruction shall reduce the direct state aid for the district for that school year by 1/90th for each equivalent school day by determining the aggregate hours of pupil instruction by grade level and dividing the aggregate hours for each grade level by the minimum hours a day for that grade level, whichever is greater. (Section 20-1-301, MCA, and ARM 10.20. 102(13))
- **Effective July 1, 2005:** For any elementary or high school district that fails to provide for at least the minimum aggregate hours, as listed in the preceding compliance requirement, the superintendent of public instruction shall reduce the direct state aid for the district for that school year by two times an hourly rate, as calculated by the office of public instruction, for the aggregate hours missed. (Section 20-1-301, MCA)
- **Prior to July 1, 2005:** For each school day short of the minimum number of school days required by law that a school district fails to conduct by reason of one or more unforeseen emergencies as defined in Section 20-9-802, MCA, the Superintendent of Public Instruction shall reduce the equalization apportionment and entitlement of the district for that school year by 1/180th. (Section 20-9-805, MCA)

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**ENROLLMENT – continued**

**2. Compliance Requirements – continued:**

- **Effective July 1, 2005:** For each hour short of the minimum number of aggregate hours required by law that a school district fails to conduct by reason of one or more unforeseen emergencies, the superintendent of public instruction shall reduce the equalization apportionment and entitlement of the district for that school year by a proportionate amount. (Section 20-9-805, MCA)
- **Prior to July 1, 2005:** Kindergarten and grade 1 through 12 programs shall be considered separately for the purpose of computing compliance with minimum school day requirements and any loss of apportionment. (Section 20-9-805, MCA)
- **Effective July 1, 2005:** Kindergarten, grade 1 through 3, and grade 4 through 12 programs must be considered separately for the purpose of computing compliance with minimum aggregate hour requirements and any loss of apportionment. (Section 20-9-805, MCA)

**Suggested Audit Procedure:**

- **Prior to July 1, 2005:** If the number of pupil instruction days did not equal or exceed 180 days and the minimum aggregate hours, verify that the direct state aid payment (equalization apportionment and entitlement of the district) was reduced by the amounts specified above for each school day less than 180.
- **Effective July 1, 2005:** If the number of pupil instruction hours did not equal or exceed the minimum aggregate hours, verify that the direct state aid payment (equalization apportionment and entitlement of the district) were reduced by the amounts specified above.

**3. Compliance Requirement:**

**PIR Days**

- **Prior to July 1, 2005:** A pupil-instruction-related (PIR) day is a day of teacher activities devoted to improving the quality of instruction. The activities may include, but are not limited to inservice training, attending state meetings of teacher organizations, and conducting parent conferences. A maximum of 7 PIR days may be conducted during a school year, with a minimum of 3 for instructional and professional development meetings or other appropriate inservice training, if the days are planned in accordance with the policy adopted by the Board of Public Education. The PIR days may not be included as a part of the required minimum of 180 days or the required minimum aggregate hours of pupil instruction. (Section 20-1-304, MCA; ARM 10.20.102 (11) & (12))



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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **ENROLLMENT – continued**

### **3.     Compliance Requirement – continued:**

- **Effective July 1, 2005:** A pupil-instruction-related day is a day of teacher activities devoted to improving the quality of instruction. The activities may include but are not limited to inservice training, attending state meetings of teacher organizations, and conducting parent conferences. A maximum of 7 pupil-instruction-related days may be conducted during a school year, with a minimum of 3 of the days for instructional and professional development meetings or other appropriate inservice training, if the days are planned in accordance with the policy adopted by the board of public education. The days may not be included as a part of the required minimum aggregate hours of pupil instruction. (Section 20-1-304, MCA)

#### **Suggested Audit Procedures:**

- Verify that the number of PIR days equaled or exceeded the minimum limitations and did not exceed 7 days, and were used for teacher activities as described above.
- **Prior to July 1, 2005:** Determine that the school district did not include the PIR days as part of the required minimum of 180 days or the required minimum aggregate hours of pupil instruction.
- **Effective July 1, 2005:** Determine that the school district did not include the PIR days as part of the required minimum aggregate hours of pupil instruction.

### **4.     Compliance Requirements:**

#### **Accreditation Status**

- When a junior high school has been approved and accredited as a junior high school, all of the regularly enrolled, full-time pupils of the junior high school must be considered as high school district pupils for ANB purposes. (Section 20-9-311(8)(b), MCA)
- When a middle or 7-8 grade program school has been approved and accredited, all pupils below the 7th grade must be considered elementary school pupils for ANB purposes and the 7th and 8th grade pupils must be considered high school pupils for ANB purposes. (Section 20-9-311(8)(c), MCA)
- If the school district has not received accreditation by the Board of Public Education for students in grades 7 and 8 funded at the high school rate, the Office of Public Instruction shall certify the regularly enrolled 7th and 8th grade students as elementary pupils for ANB purposes. The school district must budget accordingly. (Section 20-9-311, MCA, and ARM 10.20.102(3))

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **ENROLLMENT - continued**

### **4. Compliance Requirements – continued:**

- When the Board of Public Education has not accredited a school, the regularly enrolled, full-time pupils attending the nonaccredited school are not eligible for average number belonging calculation purposes, nor will an average number belonging for the nonaccredited school be used in determining the BASE funding program for the district. (Section 20-9-311(8)(d), MCA).

#### **Suggested Audit Procedure:**

**NONE**

Accreditation status is monitored and approved annually by OPI, and OPI verifies that the enrollment is reported properly for calculation of ANB through monitoring of enrollment figures reported in the school districts' audit reports.

### **5. Compliance Requirements:**

#### **Enrollment Reports**

- Procedures used to establish the enrollment count are as follows:
  - A count is taken of regularly enrolled full-time pupils who were enrolled as of the first Monday in October. A count is also taken of regularly enrolled pupils on February 1<sup>st</sup>. If those dates do not fall on a school (pupil instruction) day, a count is taken on the next school (pupil instruction) day. (Section 20-9-311(1)(a), MCA) ) If a kindergarten and/or preschool session is not held on the count date, the district may count attendances and absences on the next pupil instruction day.
  - Prior to April 28, 2005:** Enrollment for a part of a morning session or a part of an afternoon session by a pupil must be counted as enrollment for one-half day. (Section 20-9-311(4), MCA)
    - Part-time and full-time enrollment is determined on the hours per year that a student is enrolled, as follows (ARM 10.20.102(7)):

	Not Enrolled	Part-Time Enrolled	Full-Time Enrolled
Kindergarten	<180 hrs	N/A	180+ hrs
1-12	<180 hrs	180-359 hrs	360+ hrs

- Effective April 28, 2005:** Part-time and full-time enrollment is determined on the hours per year that a student is enrolled, as follows (Section 20-9-311(4) & (5), MCA):

Grade	Not Enrolled	¼-Time Enrolled	½-Time Enrolled	¾-Time Enrolled	Full-Time Enrolled
Kindergarten	<180 hrs	N/A	360+ hrs	N/A	N/A
1-12	<180 hrs	181-359 hrs	360-539 hrs	540-719 hrs	720+ hrs

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**ENROLLMENT - continued**

**5. Compliance Requirements – continued:**

**(Note: Enrollment in a self-paced program or course may be converted to an hourly equivalent based on the hours necessary and appropriate to provide the course within a regular classroom schedule.)**

- c.1. **Prior to April 28, 2005:** Enrollment at a regular session of a kindergarten program for at least 2 hours of either a morning or an afternoon session must be counted as one-half pupil for ANB purposes. The ANB for a kindergarten student may not exceed one-half for each kindergarten pupil. (Section 20-9-311(5), MCA)
- c.2. **Effective April 28, 2005:** In calculating the ANB for pupils enrolled in a program established under 20-7-117(1) MCA (Five-year-old schooling), enrollment in a program that provides 360 or more aggregate hours of pupil instruction per school year must be counted as one-half pupil for ANB purposes. (Section 20-9-311(5), MCA)
- d. When any pupil has been absent, with or without excuse, for more than 10 consecutive school days, the pupil may not be included in the enrollment count unless the pupil resumes attendance prior to the day of the enrollment count, except for the following:
  - 1. homebound students who are receiving instructional services financed by the school district who were in the education program and due to medical reasons, certified by a medical doctor, are unable to be present for pupil-instruction;
  - 2. students who are confined to a treatment, medical, or custodial facility which does not offer a regular educational program, and who are receiving instructional services financed by the school district.
 (Section 20-9-311(6), MCA; ARM 10.15.101(31); ARM 10.20.102(8))
- e. The enrollment of prekindergarten pupils, as provided in Section 20-7-117, MCA, may not be included in the ANB calculations. (Section 20-9-311(7), MCA)  
**(Note: A Kindergarten-age pupil (5-years-old on or before Sept. 10) that is receiving services in the Pre-K (Pre-School) program may be counted as a Kindergarten pupil if an Individualized Education Program (IEP) requires the 5-year old to receive instruction and services in a pre-school setting. (See OPI's audit letter dated June 06 for additional information))**
- f. Students who turned 19 on or before September 10 must be included in the enrollment count, but must then be subtracted from the count for ANB purposes. (Section 20-1-101(16), MCA)

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **ENROLLMENT - continued**

### **5.     Compliance Requirements - continued:**

- g. If a student has left school officially or has already enrolled in another district as of the count date, the student must not be included in the enrollment count. (ARM 10.20.102(4)) If a student, however, has not been gone more than 10 consecutive days, as of the count date, and it is unknown whether he will return to school, the student should be counted as enrolled. (Note: A district should follow up on unexcused absences. Therefore, it will be uncommon for a district to not know whether the student will return to school or not.)
  
- h. Districts shall provide the Superintendent of Public Instruction with semiannual reports of school attendance, absence and enrollment for regularly enrolled students, using the Annual Data Collection Form (aka “Fall Report”) form and the Spring Enrollment Report form. (Section 20-9-311(9), MCA, and ARM 10.20.102(14))

### **Suggested Audit Procedures:**

- Obtain the teachers’ attendance records and other documentation used to support enrollment figures on the count dates, and for at least 10 days prior to the count dates.
  
- Calculate enrollments for the first Monday in October and on February 1st (or the next pupil instruction day if February 1st falls on a weekend, or if the school is closed) using the criteria specified above.
  
- Determine if any students were absent for more than 10 consecutive days including the count date. If there were, verify that the students were not included on the Fall and Spring enrollment forms.
  
- Determine part-time students reported on both the Fall and Spring enrollment count dates. Verify that students qualifying for part-time status are reported in the part-time section of the enrollment report. Part-time students must be included in the enrollment count, but then are adjusted off the counts by OPI for ANB purposes.
  
- Verify that students who turned 19 before September 10 were included specifically as 19 year-olds on enrollment reports.

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **ENROLLMENT - continued**

### **5.     Suggested Audit Procedures –continued:**

- Verify attendances and absences reported on both the Fall and Spring enrollment reports, and report any discrepancies.  
(Note: OPI uses the attendance and absence information to collect cumulative attendance data required by the Federal government. Accuracy is very important. Several grant programs, including Title I, Impact Aid, Title VI and School Foods use this information to develop allocations based on the average daily attendance.)
- Compare your calculated enrollment count to that reported on the school district's reports to OPI. (Note: The Spring report includes both Fall and Spring counts and is convenient to use when auditing.) Any discrepancies should be reported in the audit report.

**(Note: If a discrepancy is noted between the district's records and reports filed with OPI, please notify OPI at telephone number (406) 444-3024, and then ask the district to submit a revised Fall and/or Spring Enrollment Report to OPI showing the original reported amounts and adjustments.)**

### **6.     Compliance Requirement: ANB Increases**

- A school district may request from the Superintendent of Public Instruction an increase in regular ANB when:
  1. the opening of a new school or the reopening of a school has been approved in accordance with Section 20-6-502, 20-6-503, 20-6-504, or 20-6-505, MCA. The average number belonging for the school must be established by the county superintendent and approved, disapproved, or adjusted by the Superintendent of Public Instruction (after an investigation of the probable number of pupils that will attend).
  2. a district anticipates an increase in the average number belonging due to the closing of any private or public school in the district or a neighboring district. The estimated increase in average number belonging must be established by the trustees and the county superintendent and approved, disapproved, or adjusted by the Superintendent of Public Instruction no later than the fourth Monday in June. (Section 20-9-313, MCA)

### **Suggested Audit Procedure:**

**NONE**

OPI monitors and approves ANB increases under these provisions.

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**ENROLLMENT - continued**

**7. Compliance Requirements:**

**ANB Increases**

- A school district may request from the Superintendent of Public instruction an increase in regular ANB when the district anticipates an unusual enrollment increase in the ensuing school fiscal year. The increase in average number belonging must be based on estimates of increased enrollment approved by the Superintendent of Public Instruction and must be computed in the manner prescribed by Section 20-9-314, MCA. (Section 20-9-313, MCA)
- The district shall submit its application for an unusual enrollment increase by elementary or high school level to the Superintendent of Public Instruction no later than June 1. The application must include:
  - a. the enrollment for the current school fiscal year;
  - b. the average number belonging used to calculate the basic entitlement and total per-ANB entitlement for the current school fiscal year;
  - c. the average number belonging (ANB) that will be used to calculate the basic entitlement and total per-ANB entitlement for the ensuing school fiscal year;
  - d. the estimated enrollment, including the factual information on which the estimate is based; and
  - e. any other information or data that may be requested by the Superintendent of Public Instruction.
 (Section 20-9-314, MCA)
- A school district may request from the Superintendent of Public Instruction an increase in regular ANB for the initial year of operation of a kindergarten program established under Section 20-7-117(1), MCA. The ANB to be used for budget purposes is the same as one-half the number of 5-year-old children residing in the district as of September 10th of the preceding school year, either as shown on the official school census or as determined by another procedure approved by the Superintendent of Public Instruction. (Section 20-9-313, MCA)

**Suggested Audit Procedure:**

**NONE**

OPI monitors and approves increases in ANB under the above provisions.



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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **ENROLLMENT - continued**

### **9.     Suggested Audit Procedure:**

- Verify that any 5-year-olds eligible for and enrolled in kindergarten have been listed as kindergarten students on the count dates.

### **10.   Compliance Requirement:**

### **Preschool Programs**

- The trustees of an elementary school district may establish and operate a free preschool program for children between the ages of 3 and 5 years. When preschool programs are established, they must be an integral part of the elementary school and must be governed accordingly. Financing of preschool programs may not be supported by money available from state equalization aid. (Section 20-7-117, MCA) (Note: The federal "IDEA Preschool Grant" is available for such programs.)

### **Suggested Audit Procedure:**

- Verify that monies available from state equalization aid were not used to support a free preschool program for children between the ages of 3 and 5.
- Verify that parents were not charged for the public preschool program.

### **11.   Compliance Requirement (For Auditor):     Standard Audit Contract Requirements**

- The standard audit contract requires the audit of any school district to include tests to verify the accuracy of the school district's enrollment for the fiscal year(s) being audited as reported to the Office of Public Instruction. It also requires that the audit report contain a supplementary schedule of the district's enrollment as reported to OPI for the fiscal year(s) being audited. The schedule must contain the enrollment both as reported to OPI in the Fall and Spring enrollment reports and as documented by the school district's enrollment records.

### **Suggested Audit Procedures:**

- Perform enrollment tests as indicated previously in this compliance supplement.
- Prepare a supplemental schedule containing the school district's enrollment both as reported to OPI in the Fall and Spring enrollment reports and as documented by the school district's enrollment records. The schedule format recommended by OPI is presented on the next page. (Note: This supplemental schedule format is also available on diskette by calling OPI at 444-3024, via e-mail at 'ptaylor2@mt.gov', or from the OPI website at <http://www.opi.mt.gov/schoolfinance/Audit.html>.)



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**I.       COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**ENROLLMENT - continued**

**(Note: If a discrepancy is noted between the district's records and reports filed with OPI, please notify OPI at telephone number (406) 444-4401, and then ask the district to submit a revised Fall and/or Spring Enrollment Report to OPI showing the original reported amounts and adjustments.)**

Supplemental Schedule  
School District Number XX  
XXXXXX County  
XXXXXX, Montana

SCHEDULE OF ENROLLMENT  
For the Year Ended June 30, 20XX

<b><u>Fall Enrollment – October, 20XX</u></b>	<b><u>Per Enrollment Reports</u></b>	<b><u>Audit Per District Records</u></b>	<b><u>Difference</u></b>
<b><u>Elementary School District</u></b>			
<b><u>PreK-6:</u></b>			
(a) Pre-Kindergarten	XXXXXX	XXXXXX	XXXX
(b) Kindergarten (enrolled 181+ hours per year)	XXXXXX	XXXXXX	XXXX
(c) Kindergarten (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
(d) Grades 1-6 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(e) Grades 1-6 (enrolled 181-359 hours per year)	XXXXXX	XXXXXX	XXXX
(f) Grades 1-6 (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
<b><u>7-8:</u></b>			
(g) Grades 7-8 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(h) Grades 7-8 (enrolled 181-359 hours per year)	XXXXXX	XXXXXX	XXXX
(i) Grades 7-8 (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
(j) Total Elementary (add lines <b>a thru i</b> )	XXXXXX	XXXXXX	XXXX
<b><u>High School District 9-12:</u></b>			
(k) Grades 9-12 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(l) Grades 9-12 (enrolled 181-359 hours per year)	XXXXXX	XXXXXX	XXXX
(m) Grades 9-12 (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
(n) Total High School (add lines <b>k thru m</b> )	XXXXXX	XXXXXX	XXXX
(o) 19 Year-olds included on line <b>k</b>	XXXXXX	XXXXXX	XXXX
(p) Job Corps Students (included on lines <b>k thru m</b> )	XXXXXX	XXXXXX	XXXX
<b><u>Spring Enrollment – February, 20XX</u></b>			
<b><u>Elementary School District</u></b>			
<b><u>PreK-6:</u></b>			
(q) Pre-Kindergarten	XXXXXX	XXXXXX	XXXX
(r) Kindergarten (enrolled 181+ hours per year)	XXXXXX	XXXXXX	XXXX
(s) Kindergarten (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
(t) Grades 1-6 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(u) Grades 1-6 (enrolled 181-359 hours per year)	XXXXXX	XXXXXX	XXXX
(v) Grades 1-6 (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
<b><u>7-8:</u></b>			
(w) Grades 7-8 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(x) Grades 7-8 (enrolled 181-359 hours per year)	XXXXXX	XXXXXX	XXXX
(y) Grades 7-8 (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
(z) Total Elementary (add lines <b>q thru y</b> )	XXXXXX	XXXXXX	XXXX
<b><u>High School District 9-12:</u></b>			
(aa) Grades 9-12 (enrolled 360+ hours per year)	XXXXXX	XXXXXX	XXXX
(bb) Grades 9-12 (enrolled 181-359 hours per year)	XXXXXX	XXXXXX	XXXX
(cc) Grades 9-12 (enrolled <181 hours per year)	XXXXXX	XXXXXX	XXXX
(dd) Total High School (add lines <b>aa thru cc</b> )	XXXXXX	XXXXXX	XXXX
(ee) 19 Year-olds included on line <b>aa</b>	XXXXXX	XXXXXX	XXXX
(ff) Early Graduates	XXXXXX	XXXXXX	XXXX
(gg) Job Corps Students (included on lines <b>k thru m</b> )	XXXXXX	XXXXXX	XXXX

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET**

### **BASE FUNDING:**

#### **1.   Compliance Requirements:**

- The basic and per-ANB entitlements, as explained below, along with the district's special education funding (which is discussed in more detail in a subsequent compliance program), define the BASE (Base Amount for School Equity) and Maximum general fund budget limits. **Effective July 1, 2006:** The BASE also includes the quality educator payment, the total at-risk student payment, the Indian education for all payment, and the American Indian achievement gap payment. (Section 20-9-306, MCA)
- **Prior to April 7, 2005:** State law requires that a basic system of free quality public elementary schools and public high schools be established and maintained throughout the State of Montana. The schools must provide equality of educational opportunity to all school-age children. The State shall, in an equitable manner, fund and distribute to the school districts the State's share of the cost of the basic school system through BASE aid (direct state aid and guaranteed tax base aid) to support the BASE funding program. Direct State Aid and Guaranteed Tax Base Aid are discussed below under separate headings. (Sections 20-9-307 and 306, MCA)
- **Effective April 7, 2005:** State law requires that a basic system of free quality public elementary and secondary schools throughout the state of Montana that will guarantee equality of educational opportunity to all. As specified in 20-9-309 the State shall identify educationally relevant factors in an effort to establish a funding mechanism to fund the basic system of free quality public elementary and secondary schools. (Section 20-9-309, MCA)
- **Prior to April 7, 2005:** The budgetary vehicle for achieving the above-mentioned financing system is the general fund budget of the school district. The purpose of the district general fund budget is to finance those instructional, administrative, facility maintenance, and other operational costs of a district not financed by other funds established for special purposes in Title 20, MCA. (Section 20-9-307, MCA)
- **Prior to April 7, 2005:** A combination of the following sources finance the BASE funding program for districts:
  - a. county equalization money, as provided in Sections 20-9-331 & 20-9-333, MCA;
  - b. state equalization aid, as provided in Section 20-9-343 MCA, including guaranteed tax base (GTB) aid for eligible districts as provided in Sections 20-9-366 through 369, MCA;

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**GENERAL FUND BUDGET – continued:**

**BASE FUNDING – continued:**

**1. Compliance Requirements:**

- c. appropriations for special education;
  - d. a district levy, as provided in Section 20-9-303, MCA, for support of a school not approved as an isolated school; and
  - e. district levies or other revenue, as provided by Sections 20-9-308 and 353, MCA. (Section 20-9-307, MCA)
- **Effective July 1, 2006:** The BASE budget for the district must be financed by the following sources of revenue:
  - a. state equalization aid, as provided in 20-9-343, including any guaranteed tax base aid for which the district may be eligible, as provided in 20-9-366 through 20-9-369;
  - b. county equalization aid, as provided in 20-9-331 and 20-9-333;
  - c. a district levy for support of a school not approved as an isolated school under the provisions of 20-9-302;
  - d. payments in support of special education programs under the provisions of 20-9-321;
  - e. nonlevy revenue, as provided in 20-9-141; and
  - f. a BASE budget levy on the taxable value of all property within the district. (Section 20-9-308(4))

**Suggested Audit Procedure:**

**NONE**

OPI extensively monitors the BASE funding program as part of the school districts' budget approval process.

**PER-ANB ENTITLEMENT:**

**1. Compliance Requirements:**

- Total per-ANB entitlement is defined as the district entitlement resulting from the following calculations:
  - a. for a high school district, or a K-12 district high school program, a maximum rate of **\$5,584 effective 7/1/2005 and \$5,704 effective 7/1/2006** for the first ANB is decreased at the rate of 50 cents per ANB for each additional ANB of the district up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB;
  - b. for an elementary school district, or a K-12 district elementary program, without an approved and accredited junior high school or middle school, a maximum rate

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**GENERAL FUND BUDGET - continued**

**PER-ANB ENTITLEMENT – continued:**

**1. Compliance Requirements:**

of **4,366 effective 7/1/2005 and \$4,456 effective 7/1/2006**; for the first ANB is decreased at the rate of 20 cents per ANB for each additional ANB of the district up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and

c. for an elementary school district, or a K-12 district elementary program, with an approved and accredited junior high school or middle school, the sum of:

(i) a maximum rate of **\$4,366 effective 7/1/2005 and \$4,456 effective 7/1/2006** for the first ANB for kindergarten through grade 6 is decreased at the rate of 20 cents per ANB for each additional ANB up through 1,000 ANB, with each ANB in excess of 1,000 receiving the same amount of entitlement as the 1,000th ANB; and

(ii) a maximum rate of **\$5,584 effective 7/1/2005; \$5,704 effective 7/1/2006** for the first ANB for grades 7 and 8 is decreased at the rate of 50 cents per ANB for each additional ANB for grades 7 and 8 up through 800 ANB, with each ANB in excess of 800 receiving the same amount of entitlement as the 800th ANB.

(Section 20-9-306(10), MCA)

- A district that anticipates an unusual increase in enrollment in the ensuing school fiscal year, as provided for in Section 20-9-313(4), MCA, may increase its basic entitlement and total per-ANB entitlement for the ensuing school fiscal year in accordance with the following provisions: (Section 20-9-314, MCA)
  - a. Prior to June 1, the district shall estimate the elementary or high school enrollment to be realized during the ensuing school fiscal year. The estimate should be based on as much factual information as may be available to the district.
  - b. No later than June 1, the district shall submit its application for an unusual enrollment increase by elementary or high school level to the Superintendent of Public Instruction.

**Suggested Audit Procedure:**

**NONE**

The per-ANB entitlement is calculated and monitored by OPI.

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **BASIC ENTITLEMENT:**

#### **1.     Compliance Requirement:**

- The basic entitlement for school districts is **\$225,273 effective 7/1/2005 and \$230,199 effective 7/1/2006** for each high school district, and **\$20,275 effective 7/1/2005 and \$20,718 effective 7/1/2006** for each elementary school district or K-12 district elementary program without an approved and accredited junior high school or middle school. The prorated entitlement for each elementary school district or K-12 district elementary program with an approved and accredited junior high school or middle school, calculated is as follows:
  - a. **\$20,275 effective 7/1/2005 and \$20,718 effective 7/1/2006** times the ratio of the ANB for kindergarten through grade 6 to the total ANB of kindergarten through grade 8; plus
  - b. **\$225,273 effective 7/1/2005 and \$230,199 effective 7/1/2006;**) times the ratio of the ANB for grades 7 and 8 to the total ANB of kindergarten through grade 8. (Section 20-9-306(6), MCA)

#### **Suggested Audit Procedure:**

**NONE**

The basic entitlement is calculated and monitored by OPI.

### **DIRECT STATE AID:**

#### **1.     Compliance Requirements:**

- Direct state aid is defined as 44.7% of the basic entitlement and 44.7% of the total per-ANB entitlement for the general fund budget of a district. It is funded by the state using a state general fund appropriation. (Section 20-9-306, MCA)
- The county commissioners of each county must levy, for county equalization:
  - a. an annual basic county tax of 33 mills on the dollar of the taxable value of all taxable property within the county, except for property subject to a tax or fee as listed in Section 20-9-331, MCA (pertaining to recreational vehicles, motor vehicles and aircraft), for the purposes of elementary equalization and state BASE funding program support, and
  - b. an annual basic county tax of 22 mills on the dollar of the taxable value of all taxable property within the county, except for property subject to a tax or fee as listed in Section 20-9-333, MCA (pertaining to recreational vehicles, motor vehicles and aircraft), for the purposes of high school equalization and state BASE funding program support. (Sections 20-9-331 and 20-9-333, MCA)

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **DIRECT STATE AID - continued:**

#### **1.    Compliance Requirements - continued:**

- The county commissioners of each county, in addition to the above tax levies, must levy annually a tax of 40 mills for state equalization aid to support the BASE funding program. The tax must be levied on all property except property for which a tax or fee is required as listed in Section 20-9-360, MCA (pertaining to recreational vehicles, motor vehicles and aircraft). (Section 20-9-360 and 343, MCA)
- The BASE funding program is defined as the State program for the equitable distribution of the State's share of the cost of Montana's basic system of public elementary schools and high schools, through county equalization aid and state equalization aid in support of the BASE budgets of districts and special education allowable cost payments. (Section 20-9-306(5), MCA)
- The revenues from the county's portion of the levy to support the above-mentioned elementary BASE funding programs, and the revenues from the following sources, are used for the equalization of the elementary BASE funding program of the county:
  - a. federal Taylor Grazing Act funds distributed to a county and designated for the BASE funding programs of the school districts in the county under the provisions of Section 17-3-222, MCA;
  - b. federal Flood Control Act funds distributed to a county and designated for expenditure for the benefit of the county common schools under the provisions of Section 17-3-232, MCA;
  - c. all money paid into the county treasury as a result of fines for violations of law, except money paid to a justice's court, and the use of which is not otherwise specified by law;
  - d. any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenues established or referred to in Section 20-9-331, MCA;
  - e. any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under the provisions of Section 17-3-213, MCA;
  - f. gross proceeds taxes from coal under Section 15-23-703, MCA; and
  - g. oil and natural gas production taxes as provided in Section 15-36-324, MCA. (Section 20-9-331, MCA)
- The revenues from the county's portion of the levy to support the above-mentioned high school BASE funding programs, and the revenues from the following sources, are used for the equalization of the high school BASE funding programs of the county:

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **DIRECT STATE AID - continued:**

#### **1.     Compliance Requirements - continued:**

- a. any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenues established or referred to in Section 20-9-333, MCA;
  - b. any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under Section 17-3-213, MCA;
  - c. gross proceeds taxes from coal under Section 15-23-703, MCA; and
  - d. oil and natural gas production taxes as provided in Section 15-36-324, MCA. (Section 20-9-333(2), MCA)
- All monies collected for county equalization and state equalization are deposited into the State's general fund and disbursed by OPI. OPI must make the following BASE aid payments by the last working day of each month:
    - a. from August to October, 10% of the direct state aid payment is disbursed to each district;
    - b. from December to April, 10% of the direct state aid payment is disbursed to each district;
    - c. in November, 50% of the guaranteed tax base (GTB) aid payment is disbursed to each district or county that has submitted a final budget to the superintendent of public instruction in accordance with the provisions of Section 20-9-134, MCA;
    - d. in May, the remainder of the GTB aid payment is disbursed to each district or county;
    - e. In June, the remaining payment of direct state aid is disbursed to each district. (Section 20-9-344, MCA)

#### **Suggested Audit Procedure:**

**NONE**

Direct state aid is calculated by OPI and automatically checked for accuracy on the districts trustees' financial summary report (revenue source 3110).

### **BASE & MAXIMUM GENERAL FUND BUDGET:**

#### **1.     Compliance Requirements:**

- The trustees of a district must adopt a general fund budget that is at least equal to the BASE budget established for the district and, except as provided in Section 20-9-308(3), MCA, does not exceed the maximum general fund budget established for the district. (Section 20-9-308(1)). **(Note: The BASE budget is defined as the minimum general fund budget of a district, which includes 80% of the basic**



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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **BASE & MAXIMUM GENERAL FUND BUDGET - continued:**

#### **1. Compliance Requirements - continued:**

entitlement, 80% of the total per-ANB entitlement, and up to 140% of the special education allowable cost payment. The maximum general fund budget is defined as a district's general fund budget amount calculated from the basic entitlement for the district, the total per-ANB entitlement for the district, (effective July 1, 2006: the total quality educator payment, the total at-risk student payment, the total Indian education for all payment, the total American Indian achievement gap payment,) and the greater of 175% of special education allowable cost payments or the ratio, expressed as a percentage, of the district's special education allowable cost expenditures to the district's special education allowable cost payment for the fiscal year that is 2 years previous, with a maximum allowable ratio of 200%. (Sections 20-9-306 and 308(1), MCA)

- The trustees of the district may increase the budget within limits described in Section 20-9-308, MCA.
- **Effective April 28, 2005:** For an elementary or high school district that has been in existence for 3 years or more, the district's maximum general fund budget and BASE budget for the ensuing school fiscal year must be calculated using the current year ANB for all budget units or the 3-year average ANB for all budget units, whichever generates the greatest maximum general fund budget. For a K-12 district that has been in existence for 3 years or more, the district's maximum general fund budget and BASE budget for the ensuing school fiscal year must be calculated separately for the elementary and high school programs and then combined. (Section 20-9-311(12), MCA)
- **Effective April 28, 2005:** The 3-year average ANB provided for in 20-9-311 does not apply to the calculation and distribution of state special education allowable cost payments. (Section 20-9-321, MCA)

#### **Suggested Audit Procedure:**

(The BASE and maximum general fund budgets are monitored by OPI.)

- Determine if the District's budget required the trustees to submit a proposition to the electors of the district (i.e. review the Final Budget document and determine if the line-item "Budget Approved by Voters" contains a dollar amount). If so, verify that any voted amount was actually approved by the electors. An election certificate should be available to verify this voted amount.

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **GUARANTEED TAX BASE AID:**

#### **1.     Compliance Requirements:**

- Each school district receives direct state aid for the first 44.7% of its basic entitlement and 44.7% of the total per-ANB entitlement for the general fund budget. The district may also receive a special education allowable cost payment to fund a portion of the district's special education program. A school district may receive guaranteed tax base (GTB) aid in support of up to 35.3% of the basic entitlement, up to 35.3% of the total per-ANB entitlement, and up to 40% of the special education allowable cost payment budgeted within the general fund. (Sections 20-9-306, 20-9-321, and 20-9-367, MCA)
- The district guaranteed tax base (GTB) ratio means the taxable valuation in the previous year of all property in the district divided by the sum of the district's current year BASE budget amount less direct state aid (**Effective April 28, 2005:** and the state special education allowable cost payment.) (Section 20-9-366, MCA)
- The statewide guaranteed tax base (GTB) ratio means the sum of the taxable valuation in the previous year of all property in the state, multiplied by 175% and divided by the total sum of either the state elementary school districts' or the high school districts' current year BASE budget amounts less total direct state aid. (Section 20-9-366, MCA)  
**(Note: The facility entitlement tax base (FEGTB) ratio means the sum of the taxable valuation in the previous year of all property in the state, multiplied by 140% and divided by 1,000, with the quotient divided by the total ANB amount used to calculate the school districts' current year total per-ANB entitlement. (Section 20-9-367))**
- If the district guaranteed tax base (GTB) ratio of any elementary or high school district is less than the corresponding statewide elementary or high school GTB ratio, the district may receive GTB aid based on the number of mills levied in the district in support of up to 35.3% of the basic entitlement, up to 35.3% of the total per-ANB entitlement, and up to 40% of the special education allowable cost payment budgeted within the general fund budget. The GTB payment is calculated in the following manner:
  - a. multiply the sum of the district's BASE budget amount less direct state aid by the corresponding statewide GTB ratio.
  - b. subtract the taxable valuation (for one mill) of the district from the product obtained above; and
  - c. divide the remainder by 1,000 to determine the equivalent to the dollar amount of GTB aid for each mill levied. (Sections 20-9-367 and 20-9-368, MCA)

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **GUARANTEED TAX BASE AID - continued:**

#### **1.     Compliance Requirements - continued:**

- The county retirement mill value per elementary or high school ANB means the sum of the taxable valuation in the previous year of all property in the county divided by 1,000, with the quotient divided by the total county elementary ANB count or the total county high school ANB count used to calculate the elementary school districts' and high school districts' current year total per-ANB entitlement amounts. (Section 20-9-366, MCA)
- Statewide mill value per elementary or high school ANB means the sum of the taxable valuation in the previous year of all property in the state, multiplied by 121% and divided by 1,000, with the quotient divided by the total state elementary ANB count or the total state high school ANB amount used to calculate the elementary school districts' and high school districts' current year total per-ANB entitlement amounts. (Section 20-9-366, MCA)
- If the county retirement mill value per elementary or high school ANB is less than the corresponding statewide mill value per elementary or high school ANB, the county may receive GTB aid based on the number of mills levied in the county in support of the retirement fund budgets of the respective elementary or high school districts in the county. The amount of GTB aid per ANB that a county may receive in support of the retirement fund budgets of the elementary and high school districts in the county is the difference between the county mill value per elementary ANB, or high school ANB, and the statewide mill value per elementary ANB, or high school ANB, multiplied by the number of mills levied in support of the respective retirement fund budgets. (Sections 20-9-367, and 368 MCA)
- If the district mill value per elementary ANB or per high school ANB is less than the corresponding statewide mill value per elementary ANB or per high school ANB, the district may receive a state advance or reimbursement for school facilities in support of the debt service fund. (Section 20-9-367, MCA)  
**(Note: If a county or district receives more GTB aid than it is entitled to, the excess must be returned to the state as required by Section 20-9-344, MCA. (Section 20-9-368(4)))**

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **GUARANTEED TAX BASE AID - continued:**

#### **1. Suggested Audit Procedures:**

(GTB is calculated and disbursed by OPI.)

- OPI has indicated that the correct calculation and distribution of GTB in the general fund depends on the following items, which the auditor should verify.
  - a. Verify that the number of mills shown on the general fund's final budget equals the number of mills actually levied.
  - b. The number of mills levied depends on proper reporting of actual non-levy revenues in the general fund. Determine that the non-levy revenues for the general fund were accurately coded and reported on the Trustees Financial Summary (TFS).
  - c. Verify that the general fund reserves listed on the budget form are accurate. "Excess" reserves (line-item numbers 962 - 966) must be supported by adequate documentation. Overstated reserves would potentially cause overpayment of GTB.
- Determine that the amount of GTB revenue (revenue code 3120) recorded in the general fund and reported on the trustees financial summary is equal to the amount of GTB revenue on the "MAEFAIRS" budget document for the district and on transmittal letters from OPI.

### **QUALITY EDUCATOR PAYMENT – (Effective 7/1/2006)**

#### **1. Compliance Requirement**

- The state shall provide a quality educator payment to public school districts. The quality educator payment is \$2,000 times the number of full-time equivalent educators, as reported to the superintendent of public instruction for accreditation purposes in the previous school year. (Section 20-9-327, MCA)

#### **Suggested Audit Procedure:**

- NONE – OPI verifies that these payments are properly deposited and reported in the general fund.

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**GENERAL FUND BUDGET - continued**

**AT-RISK STUDENT PAYMENT – (Effective 7/1/2006)**

**1. Compliance Requirement**

- The state shall provide an at-risk student payment to public school districts. The payment is prorated to each school district based upon the available appropriation and each district's Title I allocation.  
(Section 20-9-328, MCA)

**Suggested Audit Procedure:**

- NONE – OPI verifies that these payments are properly deposited and reported in the general fund.

**INDIAN EDUCATION FOR ALL PAYMENT– (Effective 7/1/2006)**

**1. Compliance Requirement**

- The state shall provide an Indian education for all payment to public school districts. The payment is the greater of \$100 for each district or \$20.40 for each ANB.  
(Section 20-9-329, MCA)

**Suggested Audit Procedure:**

- NONE – OPI verifies that these payments are properly deposited and reported in the general fund.

**AMERICAN INDIAN ACHIEVEMENT GAP PAYMENT– (Effective 7/1/2006)**

**1. Compliance Requirement**

- The state shall provide an American Indian achievement gap payment to public school districts. The payment is \$200 for each American Indian student enrolled in the district based on the count of regularly enrolled students on the first Monday in October of the prior school year as reported to the office of public instruction.  
(Section 20-9-330, MCA)

**Suggested Audit Procedure:**

- NONE – OPI verifies that these payments are properly deposited and reported in the general fund. In addition, OPI has informed the Department that auditors do not need to verify Indian student counts.



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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **SPECIAL EDUCATION - continued:**

#### **2. Compliance Requirement: GTB Aid for Special Ed Budget**

- GTB aid is provided for that portion of the special education budget up to 40% of the district's special education allowable cost payment. The portion of the budget above 40% and up to 200% of the State special education allowable cost payment is funded from district revenues with no state support. For calculating the district's maximum general fund budget limit, a district may not include more than 200% of its special education allowable cost payments. (Sections 20-9-306, 366, 367, and 368, MCA)

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors compliance with the above special education funding provisions through the budget approval process.

#### **3. Compliance Requirement: Special Education Allowable Cost Payment**

- OPI determines and distributes the special education allowable cost payments to each school district and cooperative with a special education program as follows:
  - a. An instructional block grant is awarded to each school district, based on the district ANB and the per-ANB special education instructional amount; and
  - b. A special education related services block grant is awarded to each school district that is not a cooperative member, based on the district ANB and the per-ANB special education related services amount. The special education related services block grant amount for districts that are members of approved special education cooperatives or a joint board must be awarded to the cooperatives or joint board. (Section 20-9-321(2), MCA)

#### **Suggested Audit Procedure:**

**NONE**

OPI determines payments under the above special education funding provisions.

#### **4. Compliance Requirements: Special Education Expenditures**

- A district's eligibility to receive reimbursement for disproportionate costs for the ensuing fiscal year is calculated as follows:
  - (a) Sum the district's prior fiscal year special education state allowable cost expenditures for instructional and related services;
  - (b) From (a), subtract the district's prior fiscal year minimum special education expenditure to avoid reversions;
  - (c) If the result of (b) is less than or equal to zero, a district is not eligible for reimbursement;

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **SPECIAL EDUCATION - continued:**

#### **4. Compliance Requirements – continued:**

- (d) If the result of (b) is greater than zero, a district may receive reimbursement for disproportionate costs provided that the district's rate of expenditures calculated by dividing (a) by the district's prior fiscal year minimum special education expenditure to avoid reversion reaches the threshold for eligibility based on the following formula:
- (i) multiply the state special education appropriation by .25;
  - (ii) for all districts where the result of (b) is greater than zero, sum the results of (b) and multiply by .40;
    - A. If (d)(i) equals (d)(ii), the threshold for eligibility is 1.00, and the district shall be reimbursed \$0.40 for each dollar calculated in (b);
    - B. If (d)(i) exceeds (d)(ii), the threshold for eligibility is 1.00. The .40 multiplier in (d)(ii) shall be increased to a multiplier which causes the result of (d)(ii) to equal (d)(i), and the district shall be reimbursed at that multiplier for each dollar calculated in (3)(b);
    - C. If (d)(ii) exceeds (d)(i), the threshold rate in (d)(ii) shall be increased to a percent which causes the result of (d)(ii) to equal (d)(i). The district shall be reimbursed \$.40 for each dollar calculated in (3)(a) that exceeds the amount calculated by multiplying the threshold rate times the district's prior year special education spending to avoid reversion.
- (ARM 10.16.3812(3))

#### **Suggested Audit Procedures:**

- Determine that special education expenditure amounts (expenditure program 280) reported on the trustees' financial summary are in agreement and supported by the district's accounting records.
- Test expenditures charged to special education (expenditure program 280) and determine that they were appropriate.

**(Note: Excessive charges may have resulted in the State's over allocation of the "Disproportionate Cost Reimbursements.")**

#### **5. Compliance Requirements:**

#### **Accounting for Special Ed Program**

- The Superintendent of Public Instruction shall adopt rules in accordance with the policies of the Board of Public Education for keeping necessary records for supportive and administrative personnel and any personnel shared between special and regular programs. (Section 20-7-431(2), MCA)



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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **SPECIAL EDUCATION - continued:**

#### **5.     Compliance Requirements – continued:**

- The district trustees must make an annual accounting of all expenditures of school district general fund money for special education on forms provided by OPI. OPI shall make rules for the accounting. (Section 20-7-431(3), MCA)
  - a. OPI has designated the following funds to be used to account for the state special education allowable costs and the required match: the general fund, the metal mines tax fund, the state mining impact fund and the impact aid fund. (ARM 10.16.3813(2)(a))
  - b. OPI has assigned the following revenue codes for the instructional and related services block grants: School Districts - revenue code number 3115, and Special Education Cooperatives - revenue code number 3233.
  - c. OPI has assigned expenditure program code 280 for special education expenditures.
- Each district shall provide a 25% local contribution for special education, matching every \$3 of state special education instructional and special education related services block grants with at least one local dollar. A district that is a cooperative member is required to provide the 25% match of the special education related services grant amount to the special education cooperative, but the district is not required to match the weighted funding factors (e.g., funding paid to the cooperative directly for cooperative operation and maintenance, travel, supportive services, recruitment, and administration). (Section 20-9-321(4), MCA & ARM 10.16.3813)
- The Superintendent of Public Instruction determines the actual district match based on the information provided on the trustees' financial summary. Any unmatched portion "reverts" to the state and must be subtracted from the district's ensuing year's special education allowable cost payment. (Section 20-9-321(5), MCA) The information submitted by the district on the trustees' financial summary is used as the basis of the reversion. Revisions to the annual trustees' financial summary report made by the district after the district's audit report for that fiscal year is issued, or after December 20 of the ensuing fiscal year, if later, will not be considered in calculating the reversion amount. OPI may accept the adjustments after these dates for unusual circumstances. (ARM 10.16.3817))

#### **Suggested Audit Procedure:**

NONE

OPI monitors the reversion requirements using expenditure information from the trustees' financial summary.

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **SPECIAL EDUCATION - continued:**

#### **6. Compliance Requirements: Special Ed Allowable Costs**

- **Special Education Allowable Costs - Instructional Block Grant** - Allowable costs associated with instruction of students with disabilities include:
  - a. the cost of salaries and benefits of special program teachers, regular program teachers, and teacher aides, corresponding to the working time that each person devotes to the special program;
  - b. the total cost of teaching supplies and textbooks for special programs;
  - c. the purchase, rental, repair, and maintenance of instructional equipment required to implement a student's individualized education program;
  - d. activities associated with teacher assistance teams that provide prereferral intervention;
  - e. the cost of contracted services, including fees paid for professional advice and consultation regarding special students or the special program, and the delivery of special education services by public or private agencies;
  - f. transportation costs for special education instructional personnel who travel on an itinerant basis from school to school or district to district or to in-state child study team meetings or in-state individualized education program meetings.

(Section 20-7-431, MCA and ARM 10.16.3806)
- **Special Education Allowable Costs - Related Services Block Grant** - Allowable costs associated with the provision of related services to students with disabilities include:
  - a. the cost of salaries and benefits of professional supportive personnel, corresponding to the working time that each person devotes to the special program. Professional supportive personnel may include special education supervisors, speech-language pathologists, audiologists, counselors, social workers, psychologists, psychometrists, physicians, nurses, and physical and occupational therapists.
  - b. the cost of salaries and benefits of clerical personnel who assist professional personnel in supportive services, corresponding to the working time that each person devotes to the special program;
  - c. the cost of supplies for special programs;
  - d. activities associated with teacher assistance teams that provide pre-referral interventions;
  - e. the cost of contracted services, including fees paid for professional advice and consultation regarding special students or the special program, and the delivery of special education services by public or private agencies;

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **SPECIAL EDUCATION - continued:**

#### **6. Compliance Requirements - continued:**

- f. transportation costs for special education related services personnel who travel on an itinerant basis from school to school or district to district or to in-state child study team meetings or in-state individualized education program meetings;
  - g. equipment purchase, rental, repair, and maintenance required to implement a student's individualized education program;
  - h. the additional cost of special education cooperatives or joint boards, including operation and maintenance, travel, recruitment, and administration.
- (Section 20-7-431, MCA and ARM 10.16.3807)

**(Note: Allowable costs as stated above do not include the costs of the teachers' retirement system, the public employees' retirement system, or the federal social security system; the cost for unemployment compensation insurance; the cost of any administrative, instructional or teacher aide personnel necessary to meet Montana school accreditation standards; salaries and benefits for transportation aides employed for assisting students with disabilities; the on-schedule and over-schedule costs of transportation for special education purposes; the cost of administrative support personnel, such as clerks and clerical personnel (with the exception of ARM 10.16.3807(1)(c) and 10.16.3808(1)(a)); and any overhead costs of operations and maintenance. (ARM 10.16.3805(1)))**

#### **Suggested Audit Procedure:**

- As part of expenditure testing, determine that costs charged to special education programs are allowable under the above statutes and administrative rules.

**(Note: The sum of the special education block grants may be spent for any combination of costs allowed under Section 20-7-431, MCA, without regard to whether the money was received as instructional or related services block grant. ARM 10.16.3813(3))**

#### **7. Compliance Requirement: Economic Hardship Due to Special Ed Costs**

- A district that demonstrates severe economic hardship because of exceptional special education costs may apply to the Superintendent of Public Instruction for an advance on the reimbursement for the year in which the actual costs will be incurred. (Section 20-9-321(6), MCA)

#### **Suggested Audit Procedure:**

**NONE**

OPI approves any advances and monitors this provision.



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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **SPECIAL EDUCATION - continued:**

#### **8. Compliance Requirements - continued:**

- The tuition payments must be made to the county treasurer in each county with a school district that is entitled to tuition. The county treasurer shall credit tuition receipts to the general fund of a school district entitled to a tuition payment.  
Exceptions are as follows:
  - a. Any tuition receipts received under the provisions of Section 20-5-323(3), MCA, for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district's miscellaneous programs fund and must be used for that year in the manner provided for in Section 20-9-507, MCA, to support the costs of the program for which the tuition was received.
  - b. Any tuition receipts received for the current school fiscal year for a pupil who is a child with a disability that exceed the tuition amount received for a pupil without disabilities may be deposited in the district miscellaneous programs fund and must be used for that year in the manner provided for in Section 20-9-507, MCA, to support the costs of the program for which the tuition was received.
  - c. Any other tuition receipts received for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district miscellaneous programs fund and may be used for that year in the manner provided for in that fund. For the ensuing school fiscal year, the receipts must be credited to the district general fund budget.  
(Section 20-5-324(5) and (6), MCA)

#### **Suggested Audit Procedures:**

- Verify that tuition charged by the district is in compliance with ARM 10.10.301 and 10.16.3818.
- Verify that tuition received was deposited in the district's general fund as required by Section 20-5-324(5) and (6), MCA.
- Verify that tuition received and deposited in the miscellaneous program fund is spent by June 30 or closed to the general fund as required by Section 20-5-324, MCA.

#### **9. Compliance Requirements:                      Special Ed Cooperative or Interlocal Agreement**

- When a district participates in a cooperative or enters into an interlocal agreement with another district for special education services, the district may pay its state special education allowable cost payment, required block grant match, and any other additional costs of provided services to the cooperative or district on a reimbursement basis. The payment must be deposited to the miscellaneous programs fund (fund

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **GENERAL FUND BUDGET - continued**

### **SPECIAL EDUCATION - continued:**

#### **9.     Compliance Requirements – continued:**

number 15) or the interlocal agreement fund (fund number 82) of the district providing services, or to the interlocal agreement fund of the cooperative providing services. The receipt and payment must be identified in the accounting records using a separate project reporter number, which identifies the special education agreement. (ARM 10.16.3815)

- When a cooperative contracts with a member district to provide special education instructional and related services:
  - a. the payments received by a district from a cooperative must be deposited in the district's miscellaneous programs fund or interlocal agreement fund and
  - b. the receipt and expenditure of the money must be identified on the accounting records using a separate project reporter number (which identifies the special education agreement).
  - c. Any amounts received by the district from the cooperative but not obligated for the special education purposes outlined in the contract must be returned to the paying cooperative by June 30th and recorded as revenue abatement by the district providing the service and as expenditure abatement by the cooperative. (ARM 10.16.3815)

**(Note: There should be a written contact for services to be provided by the member district.)**

#### **Suggested Audit Procedures:**

- Determine whether the district participates in a special education cooperative or has entered into an interlocal agreement with another district for special education services.
- If so, determine whether the district was to receive payments from another district or the cooperative for special education services.
- Determine that any payments were credited to the district's miscellaneous programs fund and/or interlocal agreement fund, properly accounted for as described above, and used for special education purposes.
- If amounts received from a cooperative for special education purposes were not obligated for such purposes by June 30, determine that they were returned to the cooperative and recorded on the district's records as a revenue abatement.

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **TRANSPORTATION FUND BUDGET**

**(Note to Auditor: OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements. OPI would like auditors to verify the accuracy of information submitted to OPI on the following forms: TR-1 (bus route reimbursement form), TR-4 (individual transportation contract form), TR-5 (claim form for individual transportation), and TR-6 (claim form for bus route reimbursement))**

### **1. Compliance Requirements:**

### **Mileage Rates**

- The following mileage rates for school transportation constitute the maximum reimbursement to districts for school transportation from state and county sources of transportation revenue under the provisions of Sections 20-10-145 and 20-10-146, MCA. These rates may not limit the amount that a district may budget in its transportation fund budget in order to provide for the estimated and necessary cost of school transportation during the ensuing school fiscal year. All bus miles traveled on bus routes approved by the county transportation committee are reimbursable. Nonbus mileage is reimbursable for a vehicle driven by a bus driver to and from an overnight location of a school bus when the location is more than 10 miles from the school. A district may approve additional bus or nonbus miles within its own district or approved service area but may not claim reimbursement for the mileage.
- The rate per bus mile traveled must be determined in accordance with the following schedules.
  - a. 95 cents for a school bus with a rated capacity of not more than 49 passenger seating positions;
  - b. \$1.15 for a school bus with a rated capacity of 50 to 59 passenger seating positions;
  - c. \$1.36 for a school bus with a rated capacity of 60 to 69 passenger seating positions;
  - d. \$1.57 for a school bus with a rated capacity of 70 to 79 passenger seating positions;
  - e. \$1.80 for a school bus with 80 or more passenger seating positions, and
  - f. Nonbus mileage, as provided in subsection (as described above), must be reimbursed at a rate of 50 cents a mile.

(Section 20-10-141, MCA; ARM 10.7.110, ARM 10.7.112, and ARM 10.7.115)

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **TRANSPORTATION FUND BUDGET - continued**

### **1. Compliance Requirements - continued:**

- The rated capacity is the number of passenger seating positions of a school bus as determined under the policy adopted by the board of public education. If modification of a school bus to accommodate pupils with disabilities reduces the rated capacity of the bus, the reimbursement to a district for pupil transportation is based on the rated capacity of the bus prior to modification.

**(Note: The number of pupils riding the school bus may not exceed the passenger seating positions (i.e., rated capacity) of the bus.)**

### **Suggested Audit Procedures:**

(OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements.)

- Determine the number of buses the district maintains. For selected buses, verify the “rated capacities,” as reported to OPI and the county superintendent, by checking the sticker attached to the bus against the TR-1 Form (Bus Route Reimbursement Form).
- Verify that the district has a procedure for establishing the mileage for each of the bus routes, and that the mileage is rechecked annually for accuracy.  
**(Note: OPI determines the rates.)**

### **2. Compliance Requirements:                      Individual Transportation Reimbursement**

- The following rates for individual transportation make up the maximum reimbursement to districts for individual transportation from state and county sources of transportation revenue under the provisions of Sections 20-10-145 and 20-10-146, MCA. These rates constitute the limitation of the budgeted amounts for individual transportation for the ensuing school fiscal year. When the trustees contract with the parent or guardian of any eligible transportee to provide individual transportation for each day of school attendance, they shall reimburse the parent or guardian for actual miles transported on the basis of the following schedule:
  1. When a parent or guardian transports an eligible transportee or transportees from the residence of the parent or guardian to a school or to schools located within 3 miles of one another, the total reimbursement per day of attendance is determined by multiplying the distance in miles between the residence and the school, or the most distant school if more than one, by 2, subtracting 6 miles from the product, and multiplying the difference by 25 cents (**Effective 7/1/06: 35 cents**), provided that:
    - a. if two or more eligible transportees are transported by a parent or guardian to two or more schools located within 3 miles of one another and if the schools



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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**TRANSPORTATION FUND BUDGET - continued**

**2. Compliance Requirements - continued:**

are operated by different school districts, the total amount of the reimbursement must be divided equally between the districts;

- b. if two or more eligible transportees are transported by a parent or guardian to two or more schools located more than 3 miles from one another, the parent or guardian must be separately reimbursed for transporting the eligible transportee or transportees to each school;
- c. if a parent transports two or more eligible transportees to a school and a bus stop that are located within 3 miles of one another, the total reimbursement must be determined under the provisions of this subsection and must be divided equally between the district operating the school and the district operating the bus;
- d. if a parent transporting two or more eligible transportees to a school or bus stop must, because of varying arrival and departure times, make more than one round-trip journey to the bus stop or school, the total reimbursement allowed by this section is limited to one round trip per day for each scheduled arrival or departure time;
- e. notwithstanding the provisions of “a”, “b”, “c”, or “d” above, a reimbursement may not be less than 25 cents a day.

(Section 20-10-142(1), MCA; ARM 10.7.113, ARM 10.7.114, and ARM 10.7.115)

- When the parent or guardian transports an eligible transportee or transportees from the residence to a bus stop of a bus route approved by the trustees for the transportation of the transportee or transportees, the total reimbursement per day of attendance is determined by multiplying the distance in miles between the residence and the bus stop by 2, subtracting 6 miles from the product, and multiplying the difference by 25 cents, provided that:
  - a. if the eligible transportees attend schools in different districts but ride on one bus, the districts shall divide the total reimbursement equally (i.e., “shared contract”); and
  - b. if the parent or guardian is required to transport the eligible transportees to more than one bus, the parent or guardian must be separately reimbursed for transportation to each bus.

(Section 20-10-142(2), MCA; ARM 10.7.113, ARM 10.7.114, and ARM 10.7.115)

- When, because of excessive distances, impassable roads, or other special circumstances of isolation, the rates prescribed above would be an inadequate reimbursement for the transportation costs or would result in a physical hardship for the eligible transportee, a parent or guardian may request an increase in the reimbursement rate. (Section 20-10-142(3), MCA; ARM 10.7.113, ARM 10.7.114, ARM and 10.7.115)

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**TRANSPORTATION FUND BUDGET - continued**

**2. Compliance Requirements - continued:**

- The state and county transportation reimbursement for an individual transportation contract may not exceed \$9.25 (**Effective 7/1/06: \$12.95**) per day of attendance for the first eligible transportee and \$6 (**Effective 7/1/06: \$8.40**) per day of attendance for each additional eligible transportee. (Section 20-10-142(4), MCA)

**Suggested Audit Procedures:**

- Verify that payments made by the district are only made to parents of students that are eligible transportees who hold valid TR-4 contracts (Individual Transportation Contract Form).
- Verify that the district or county has a system for verifying mileage reported by parents on the TR-4 claim form.
- Verify that districts providing contractual reimbursement for students attending out-of-district are reimbursing only for the mileage to the nearest school or bus stop that could be used.
- Verify a sample of individuals listed on the TR-5 claim form (Claim Form for Individual Transportation) to ensure the days of attendance reported matches pupil attendance records.
- If the district ran fewer than 180 days of pupil instruction, ensure the reduction is reported accurately on the TR-6 forms (Claim Form for State Reimbursement) submitted to OPI.
- Verify that the state and county transportation reimbursement paid to an individual for an individual transportation contract did not exceed the schedule amounts, except for approved isolation contracts.

**3. Compliance Requirements:**

**Transportation Fund Budget Calculation**

- The trustees of a district furnishing transportation to pupils who are residents of the district shall provide a transportation fund budget that is adequate to finance the district's transportation contractual obligations and any other transportation expenditures necessary for the conduct of its transportation program. The transportation fund budget must include:
  - a. an adequate amount to finance the maintenance and operation of district owned and operated school buses;

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **TRANSPORTATION FUND BUDGET - continued**

### **3. Compliance Requirements - continued:**

- b. the annual contracted amount for the maintenance and operation of school buses by a private party;
  - c. the annual contracted amount for individual transportation, including any increased amount because of isolation, which may not exceed the schedule amounts prescribed in Section 20-10-142, MCA, (as discussed above);
  - d. any amount necessary for the purchase, rental, or insurance of school buses; and
  - e. any other amount necessary to finance the administration, operation, or maintenance of the transportation program of the district, as determined by the trustees.

(Section 20-10-143(1), MCA; ARM 10.7.105 and 10.7.108)
- The trustees may include a contingency amount in the transportation fund budget for the purpose of enabling the district to fulfill an obligation to provide transportation for:
  - a. pupils not residing in the district at the time of the adoption of the final budget and who subsequently became residents (and eligible transportees) of the district during the school fiscal year; or
  - b. pupils who have become eligible transportees since the adoption of the final budget because their legal residence has been changed.
  - c. other unforeseen increases in bus route mileage or obligations for payment of additional contracts for individual transportation for an eligible transportee for which state and county reimbursement is authorized. The budgeted contingency amount may not exceed 10% of the transportation schedule amount as calculated above under the provisions of Sections 20-10-141 and 20-10-142, MCA, for all transportation services authorized by the schedules and provided by the district unless 10% of the transportation schedule amount is less than \$100, in which case \$100 is the maximum limitation for the budgeted contingency amount.

(Section 20-10-143(2), MCA; ARM 10.7.107)

### **Suggested Audit Procedure:**

(OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements. OPI also verifies that the districts include in their budget only an allowable amount for contingency.)

- Verify that Transportation Fund expenditures are made only for costs associated with the program for transporting students to and from school.  
(**Note: Athletics and field trips are not allowable costs of this fund.**)

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**TRANSPORTATION FUND BUDGET – continued**

**4. Compliance Requirement:            Transportation Contracts to County Superintendent**

- When the adopted final budget is sent to the county superintendent, the trustees shall also send copies of all completed transportation contracts for school bus transportation to the county superintendent. The contracts must substantiate all contracted school bus transportation services incorporated in the final budget. (Section 20-10-143(4), MCA)

**Suggested Audit Procedure:**

**NONE**

(OPI monitors compliance with this requirement.)

**5. Compliance Requirements:            Funds Used to Reduce Property Tax Levy**

- The total of the money available for the reduction of property tax on the district for the Transportation Fund must be determined by totaling:
  - a. anticipated federal money received under the provisions of 20 U.S.C. 7701, et seq., or other anticipated federal money received in lieu of that federal act;
  - b. anticipated payments from other districts for providing school bus transportation services for the district;
  - c. anticipated payments from a parent or guardian for providing school bus transportation services for a child;
  - d. anticipated or reappropriated interest to be earned by the investment of transportation fund cash in accordance with the provisions of Section 20-9-213(4), MCA;
  - e. anticipated revenue from coal gross proceeds under Section 15-23-703, MCA;
  - f. anticipated oil and natural gas production taxes;
  - g. anticipated transportation payments for out-of-district pupils under the provisions of Section 20-5-320 through 20-5-324, MCA;
  - h. school district block grants distributed under section 244, Chapter 574, Laws of 2001
  - i. any other revenue anticipated by the trustees to be earned during the ensuing school fiscal year that may be used to finance the transportation fund; and
  - j. any fund balance available for reappropriation as determined by subtracting the amount of the end-of-the-year fund balance earmarked as the Transportation Fund operating reserve for the ensuing school fiscal year by the trustees from the end-of-the-year fund balance in the Transportation Fund.

This information must be submitted to the county commissioners by the county superintendent before the fourth Monday of August.

(Section 20-10-144, MCA)

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**TRANSPORTATION FUND BUDGET - continued**

**5. Suggested Audit Procedure:**

(OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements.)

- Compare the prior year's actual revenues and the current year's actual revenues to the current year's budget revenues for reasonableness.

**6. Compliance Requirements:**

**Transportation Revenue Calculation**

- The county superintendent shall compute the revenue available to finance the Transportation Fund budget of each district. The county superintendent shall compute the revenue for each district on the following basis:

The "schedule amount" of the budget expenditures that is derived from the rate schedules in Sections 20-10-141 and 20-10-142, MCA, must be determined by adding the following amounts:

- a. the sum of the maximum reimbursable expenditures for all approved school bus routes maintained by the district (to determine the maximum reimbursable expenditure, multiply the applicable rate per bus mile by the total number of miles to be traveled during the ensuing school fiscal year on each bus route approved by the county transportation committee and maintained by the district); plus
- b. the total of all individual transportation per diem reimbursement rates for the district as determined from the contracts submitted by the district multiplied by the number of pupil-instruction days scheduled for the ensuing school attendance year (usually 180 days); plus
- c. any estimated costs for supervised home study or supervised correspondence study for the ensuing school fiscal year; plus
- d. the amount budgeted in the budget for the contingency amount permitted in Section 20-10-143, MCA, except if the amount exceeds 10% of the total of "a", "b", and "c" above or \$100, whichever is larger, the contingency amount on the budget must be reduced to the limitation amount and used in this determination of the schedule amount; plus
- e. any estimated costs for transporting a child out of district when the child has mandatory approval to attend school in a district outside the district of residence.

(Section 20-10-144(1), MCA)

- The schedule amount determined above or the total Transportation Fund budget, whichever is smaller, is divided by 2 and is used to determine the available state and county revenue to be budgeted on the following basis:
  - a. one-half is the budgeted state transportation reimbursement, (**Prior to July 1,**



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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **TRANSPORTATION FUND BUDGET - continued**

### **7. Compliance Requirements - continued:**

transportation services were actually rendered, not to exceed 180 pupil-instruction days. (Section 20-10-145, MCA)

### **Suggested Audit Procedure:**

**NONE**

OPI monitors the accuracy of transportation fund budget calculations and State and county reimbursements.

## **BUS DEPRECIATION RESERVE FUND BUDGET**

### **1. Compliance Requirements:**

**(Note: The term “bus” as used here refers to a yellow school bus or a transit-style bus used for athletics and activities.)**

- Each district that owns a bus or two-way radio may establish a bus depreciation reserve fund. The reserve fund must be used for the conversion, remodeling, or rebuilding of a bus, for the replacement of a bus or radio, or to purchase additional buses (i.e., yellow school buses). (Section 20-10-147(1) & (3), MCA) **(Note: Vans and other non-bus vehicles cannot be purchased through this fund.)**
- Whenever a bus depreciation reserve fund is established, the budget may include an amount each year that does not exceed 20% of the original cost of a bus or two-way radio. The amount budgeted, over time, may not exceed 150% of the original cost of a bus or two-way radio. (Section 20-10-147(2), MCA) **(Note: Each bus being depreciated must be listed in the budget document.)**
- The accumulative cash balance from all buses can be applied to the purchase price of a new or used replacement bus. (A.G.O. 153, Volume 37) **(Note: OPI’s interpretation of this AGO is that it would also apply to the purchase of an additional new or used yellow school bus)**
- Any expenditure of bus depreciation reserve fund moneys must be within the approved budget for the fund. Expenditures may be made only to convert, remodel, or rebuild buses, to replace the buses or radios, or to purchase additional buses (i.e., yellow school buses). (Section 20-10-147(3), MCA) **(Note: OPI allows the purchase of surveillance cameras for buses using this fund.)**

### **Suggested Audit Procedures:**

- Review the budget to ensure that the amount budgeted in the bus depreciation reserve fund for the current year is not more than 20% of the original cost of each bus or

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**BUS DEPRECIATION RESERVE FUND BUDGET – continued:**

**1. Suggested Audit Procedures:**

- radio and that the total amount budgeted, over time, is not more than 150% of the original cost of each bus or radio.
- Review the budget documentation to determine if it includes all buses and radios that are being depreciated.
- Determine that expenditures were made from the depreciation reserve fund only to convert, remodel, or rebuild a bus, to replace a bus or radio, or to purchase an additional yellow school bus for which the bus depreciation reserve fund was created.

**TUITION FUND BUDGET**

**1. Compliance Requirements:**

- The budget for tuition for the current year is based on the amount of tuition to be paid for attendance in the previous or current year. (ARM 10.10.301B(9)) Out-of-district tuition and related transportation payments must be financed from the district tuition fund and transportation fund, respectively. (Section 20-5-324(5), MCA)
- Out-of-district tuition revenues must be budgeted in, and credited to, the general fund. (Sections 20-5-324(6) and 20-9-141, MCA)  
Exceptions are as follows:
  - a. Any tuition receipts received under the provisions of Section 20-5-323(3), MCA, for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district's miscellaneous programs fund and must be used for that year in the manner provided for in Section 20-9-507, MCA, to support the costs of the program for which the tuition was received.
  - b. Any tuition receipts received for the current school fiscal year for a pupil who is a child with a disability that exceed the tuition amount received for a pupil without disabilities may be deposited in the district miscellaneous programs fund and must be used for that year in the manner provided for in Section 20-9-507, MCA, to support the costs of the program for which the tuition was received.
  - c. Any other tuition receipts received for the current school fiscal year that exceed the tuition receipts of the prior year may be deposited in the district miscellaneous programs fund and may be used for that year in the manner provided for in that fund. For the ensuing school fiscal year, the receipts must be credited to the district general fund budget.



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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **TUITION FUND BUDGET – continued:**

### **1. Compliance Requirements - continued:**

- Out-of-district tuition agreements (form FP-14, “Student Attendance Agreement”) must be prepared for each out-of- district attendance that occurs. These forms specify the county in which the districts are located. (Section 20-5- 321(2), MCA)
- **Prior to July 1, 2005** - When approval of out-of-district attendance is mandatory under the provisions of Section 20-5-321(1)(d) or (1)(e), MCA (i.e., due to state, or group home/foster care placement), the tuition and overschedule transportation payments for a child attending a school outside of the child’s district of residence must be financed by the basic county tax for elementary equalization for the child’s county of attendance\*, or by the basic county tax for high school equalization for the child’s county of attendance\*. These payments are not budgeted as tuition payments of the resident district. (Section 20-5-324(6), MCA & ARM 10.10.301B(11))  
**(\*Note: Section 20-5-324(6 provides for these payments to be made from the county equalization moneys of the county of *residence*, rather than the county of *attendance*. However, because it is often difficult or impossible to determine the county of residence prior to placement for some students, the ARM has provided for the payment to be made from the equalization moneys of the county of attendance. Equalization monies from all counties are considered to be the same “pot” of money.)**
- **Effective July 1, 2005** – OPI will pay the district of attendance the amount of tuition obligation for each child who attended a school in the district under a mandatory out-of-district attendance agreement under the provisions of 20-5-321(1)(d) or (1)(e). These tuition receipts should be deposited to the general fund. (Sections 20-5-324(2)(a) and (6)(a))
- OPI will reimburse the district of residence for the state portion of the per-ANB entitlement for each student attending public schools out of state or day-treatment programs in the previous school year. **Effective July 1, 2005**, these reimbursements must be deposited into the district tuition fund and must be used to pay the tuition obligations for these students. (Section 20-5-324(2)(c) and (7))
- Districts and counties may pay tuition for current year attendance OR may budget and pay in the year following the student’s year of attendance. (ARM 10.10.301B(9))

### **Suggested Audit Procedure:**

- Review the amount of out-of-district tuition revenue and/or appropriations that were budgeted. If material, test selected copies of the FP-14, "Student Attendance Agreement form," to determine if appropriations were based on the out-of-district attendance that occurred in the previous or current year.

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## **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **RETIREMENT FUND BUDGET**

#### **1. Compliance Requirements:**

- Only the amount of the employer's contributions to the Teachers' Retirement System (TRS), the Public Employees' Retirement System (PERS), the Social Security Administration (FICA), and the Unemployment Compensation Division are to be included in the retirement fund budget. The employees' contributions must not be included. (Section 20-9-501(2), MCA) (**Note: Payments to employees, such as early retirement incentives, cannot be made from the retirement fund.**)
- Districts may not charge the employers' share of retirement system costs for employees paid using Federal money (except School Foods Fund and Impact Aid) to the retirement fund. The retirement costs for Federally-paid employees (except Schools Foods Fund and Impact Aid) must be charged to the grant that pays the salary. The retirement fund can be used only if the employee's salary and health-related benefits (insurance), if any, are paid using state or local funds. (Section 20-9-501(2), MCA)

#### **Suggested Audit Procedure:**

- Determine if the amount budgeted for retirement in the retirement fund was for only the required employer's contribution.
- FY04: Determine whether the district had a system in place for restricting the amount of retirement fund payments for Federally-paid employees to the amount paid in FY03.
- FY05: Determine whether the district had a system in place for restricting the retirement fund usage to include only employees whose salaries and health related benefits (insurance), if any, were paid using state and local funds.

#### **2. Compliance Requirement:**

- The retirement fund operating reserve must not exceed 35% of the final retirement fund budget for the ensuring school fiscal year. (Section 20-9-501(4))

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors compliance with the reserve limitation.

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **ADULT EDUCATION FUND BUDGET**

### **1. Compliance Requirements:**

- The trustees of a district may authorize the levy of a tax on the taxable value of all taxable property within the district for the operation of an adult education program. Section 15-10-420, MCA does not apply to school district levies established in Title 20, MCA.

#### **Suggested Audit Procedure:**

**NONE**

OPI does not encourage the auditor to verify compliance of FY 01 taxes with Section 15-10-420, MCA, as this section has no current relevance for school budgets.

### **2. Compliance Requirements:**

- A separate adult education fund must be established by the district when an adult education program is operated by the district. The fund must be the depository for all district money received by the district in support of the adult education program, including tuition and fees. Federal and state adult education program money must be deposited in the miscellaneous programs fund. (Section 20-7-705(2), MCA)
- Adult education programs are only for students 16 years of age or older who are not regularly enrolled, full-time pupils for the purposes of ANB computation. (Section 20-7-701, MCA) (**Note: Students enrolled in high school, whether enrolled part-time or full time cannot be served using adult education money.**)

#### **Suggested Audit Procedures:**

- Review the adult education fund budget and determine that it includes estimated revenues for tuition, fees, and other district moneys to be received by the district in support of the adult education fund.
- Review records of the adult education program to ensure that the program only serves persons 16 or older who are not regularly enrolled students.

### **3. Compliance Requirement:**

- The adult education fund operating reserve must not exceed 35% of the final adult education fund budget for the ensuring school fiscal year. (Section 20-7-713)

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors compliance with the reserve limitation.

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# **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **NONOPERATING FUND BUDGET**

### **1. Compliance Requirement:**

- The trustees of a district that will not operate a school during the ensuing school fiscal year shall establish a nonoperating fund on the first day of the school fiscal year. In establishing the nonoperating fund, the trustees shall cause the transfer of the end-of-the-year fund balance of each fund maintained by the district during the immediately preceding school fiscal year to the nonoperating fund. However, fund balances of the debt service fund and the miscellaneous programs fund, if any, must be maintained in their individual funds. (Section 20-9-505(1), MCA)

### **Suggested Audit Procedure:**

NONE

OPI monitors the establishment of nonoperating funds.

### **2. Compliance Requirements:**

- The trustees of a district establishing a nonoperating fund for the first year of nonoperation may earmark a portion of the nonoperating fund balance as a nonoperating fund operating reserve when they anticipate the reopening of a school in the following school fiscal year. The operating reserve may not be more than the general fund operating reserve designated for the immediately preceding school fiscal year. (Section 20-9-505(2), MCA)
- If a school is not operated in the following school fiscal year, the authority of the trustees to earmark a nonoperating fund operating reserve terminates and the money earmarked as an operating reserve must be used to reduce the levy requirement of the nonoperating fund. (Section 20-9-505(2), MCA)

### **Suggested Audit Procedure:**

NONE

Nonoperating schools are not required to be audited, so procedures are not necessary.

### **3. Compliance Requirement:**

- The trustees of any district which does not operate a school or will not operate a school during the ensuing school fiscal year shall adopt a nonoperating school district budget. Such nonoperating budget shall contain the nonoperating fund and, when appropriate, a debt service fund. The net levy requirement is calculated by subtracting from the amount authorized by such budget the sum of:
  - a. the end-of-the-year cash balance of the nonoperating fund or, if it is the first year of nonoperation, the cash balance determined under the transfer provisions of Section 20-9-505, MCA;

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## **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **NONOPERATING FUND BUDGET**

#### **3. Compliance Requirement:**

- b. the estimated state and county transportation reimbursements; and
- c. any other moneys that may become available during the ensuing school fiscal year. (Section 20-9-506, MCA)

#### **Suggested Audit Procedure:**

**NONE**

OPI monitors the nonoperating budget for compliance with statutory requirements.

### **TECHNOLOGY ACQUISITION AND DEPRECIATION FUND BUDGET**

#### **1. Compliance Requirements:**

- The trustees of a district may establish a technology acquisition and depreciation fund for school district expenditures incurred and depreciation accrued for the purchase, rental, repair, maintenance, and depreciation of technological equipment, including computers and computer network access; and associated technical training for school district personnel. (Section 20-9-533(1), MCA)
- The technology acquisition and depreciation fund may not be used to finance contributions to the teachers' retirement system, the public employees' retirement system, or the federal social security system or for unemployment compensation insurance. (Section 20-9-533(8), MCA)

**(NOTE: OPI interprets the purpose of the technology acquisition and depreciation fund to include the payment of salaries and benefits for employees who maintain computers and facilitate access to the Internet and local networks, and employees who train the district staff in use of technology. It would not include salaries and benefits for classroom teachers for district students.)**

#### **Suggested Audit Procedures:**

- As part of the testing of general expenditures, verify that expenditures/disbursements, were made only for technology acquisition and the related purposes listed above.
- As part of the testing of payroll, verify that only the salaries and benefits of employees whose positions relate to technology, as described above, are paid from the technology acquisition and depreciation fund.

#### **2. Compliance Requirements:**

- The trustees of a school district may submit a proposition to the qualified electors of the district to approve an additional levy to fund the depreciation of technological

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# **I.     COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

## **TECHNOLOGY ACQUISITION AND DEPRECIATION FUND BUDGET – continued:**

### **2.     Compliance Requirements - continued:**

equipment fund. The election must be called and conducted in the manner prescribed in Title 20 for school elections and in the manner prescribed by Section 15-10-425, MCA. (Section 20-9-533(6), MCA)

- In depreciating the technological equipment of a school district, the trustees may include in the district's budget, contingent upon voter approval of a levy, an amount each fiscal year that does not exceed 20% of the original cost of any technological equipment, including computers and computer network access, that is owned by the district. The amount budgeted may not, over time, exceed 150% of the original cost of the equipment. (Section 20-9-533(3), MCA)
- The District may levy up to the 20% limitation each year, supported by appropriate fixed assets records, after having obtained voter approval. Voter approval allows the district to levy each subsequent year, or the number of years may be limited if so stated on the original ballot.

### **Suggested Audit Procedures:**

- Determine if the district voted a technology levy amount per Section 20-9-533, MCA. If so, verify that the levy amount does not exceed the limits as described above and that depreciation values meet the limits as described.
- Verify the district has a method of accurately tracking asset costs, allowable levies limited to the 20% and 150% restrictions, and that assets are removed from the list when retired or otherwise disposed.

## **SCHOOL FLEXIBILITY FUND BUDGET**

### **1.     Compliance Requirement:**

- The trustees of a school district may submit a proposition to the qualified electors of the district to approve a levy for the district's school flexibility fund in an amount not to exceed 25% of the district's allocation as described in Section 20-9-542, MCA (i.e., State allocation from OPI). An election must be called and conducted in the manner prescribed by Title 20 for school elections. Money collected from the levy must be deposited in the district's school flexibility fund and spent in accordance with Section 20-9-543, MCA. (Section 20-9-543, MCA)

### **Suggested Audit Procedure:**

**NONE**

OPI monitors the school flexibility fund budget for compliance.

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## **I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

### **DEBT SERVICE FUND BUDGET**

#### **1. Compliance Requirements:**

- The debt service fund budget must include an amount necessary to pay the interest and principal coming due during the ensuing fiscal year. It should also include the amount necessary to pay the special improvement district assessments levied against the school district that become due during the ensuing fiscal year, and a limited operating reserve as described below. (Section 20-9-438, MCA)
- At the end of the fiscal year, the trustees may designate a portion of the end-of-the-year fund balance of the debt service fund to be earmarked as a limited operating reserve for the purpose of paying any debt service fund warrants and bond obligations that must be paid from July 1 through November 30 of the fiscal year following the ensuing fiscal year. (**Note: The district should not hold a reserve for the July 1 payment if the payment was budgeted and paid in the previous year.**) Any portion that is not earmarked must be reappropriated to be used for property tax reduction. (Section 20-9-438, MCA)

#### **Suggested Audit Procedures:**

- Review the debt service fund budget document to determine that it includes a sufficient amount to pay the principal and interest coming due during the ensuing fiscal year, plus any special improvement district assessments levied against the district. (**Note: The budgeted payments should match the bond payment schedule prepared by the bond agent.**)
- Determine that the end-of-the-year fund balance is reappropriated to be used for property tax reduction, except for that portion designated as a limited operating reserve.

### **BUILDING RESERVE FUND BUDGET**

#### **1. Compliance Requirements:**

- The trustees of any district, with the approval of the qualified electors of the district, may establish a building reserve fund for the purpose of raising money for the future construction, equipping, or enlarging of school buildings, for the purpose of purchasing land needed for school purposes in the district, or for the purpose of funding school transition costs authorized by the electorate. (**Note: Transition costs include the costs of opening a new school, closing a school, replacing a school building, or consolidating with or annexing another district.**) In order to submit to the qualified electors of the district a proposition for the establishment of or addition to a building reserve fund, the trustees shall pass a resolution that specifies:

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**I. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:**

**BUILDING RESERVE FUND BUDGET – continued:**

**1. Compliance Requirements - continued:**

- a. the purpose or purposes for which the new or addition to the building reserve fund will be used;
  - b. the duration of time over which the new or addition to the building reserve fund will be raised in annual, equal installments;
  - c. the total amount of money that will be raised during the duration of time specified in “b” above; and
  - d. any other statutory requirements under Sections 15-10-425 and 20-20-201, MCA, for the calling of a school election, as applicable. (Section 20-9-502(1), MCA)
- A building reserve fund tax authorization may not be for more than 20 years, except that the duration of the levy for transition costs may not exceed 6 years. (Section 20-9-502(2) & (5)(b), MCA)

**Suggested Audit Procedures:**

- Determine if the District maintains a Building Reserve Fund. If so, verify that it was approved by the electorate.
- Determine that the amount raised by the Building Reserve Fund tax each year is in accordance with the proposition approved by the electors.
- Determine that the Building Reserve Fund tax, if applicable, has not been levied for longer than 20 years or , in the case of transition costs, for longer than 6 years.
- Determine that the Building Reserve Fund has not been imposing a tax levy for a period of time in excess of that stated in the proposition approved by the electors.

**2. Compliance Requirement:**

- The trustees of any district maintaining a Building Reserve Fund have the authority to expend moneys from the fund for the purpose or purposes for which it was authorized without such specific expenditures being included in the budget when, in their discretion, there is a sufficient amount of money to commence the authorized projects. (Section 20-9-503, MCA)

**Suggested Audit Procedure:**

- Test expenditures from the Building Reserve Fund and determine that they were for the purpose or purposes for which it was authorized.